

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

**STATE OF CALIFORNIA
COMPLIANCE AUDIT REPORT
YEAR ENDED JUNE 30, 1992**

**State of California
Compliance Audit Report
Year Ended June 30, 1992**

F-205, December 1992

**Office of the Auditor General
California**



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STATE OF CALIFORNIA
Office of the Auditor General

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Kurt R. Sjoberg
Acting Auditor General

December 10, 1992

F-205

Honorable Pete Wilson
Governor, State of California
State Capitol
Sacramento, California 95814

Dear Governor Wilson:

The Office of the Auditor General presents its "State of California, Compliance Audit Report, Year Ended June 30, 1992." We conducted the federal compliance audit in accordance with both generally accepted auditing standards and generally accepted government auditing standards. This report fulfills the compliance audit requirements of the 1984 Single Audit Act and OMB Circular A-128.

Unlike past comprehensive audit reports issued by the Office of the Auditor General, this report does not contain opinions on the State of California's General Purpose Financial Statements, its internal control structure, and its compliance with state laws and regulations for June 30, 1992. These opinions will have to be completed before the State of California is in full compliance with federal mandates.

Our report is divided into four parts. Part I includes three auditor's opinions concerning the Schedule of Federal Assistance, Compliance with Federal Grant Requirements, and Internal Control Structure Used in Administering Federal Financial Assistance Programs. Part II is a compilation of reports on Compliance with Federal Programs by Department. This part includes reports on 16 state departments, offices and commissions on which we identified federal compliance issues. Part III lists the Schedule of Minor Federal Compliance Issues, and Part IV is the Schedule of Federal Assistance for the Fiscal Year Ended June 30, 1992.

The audit workpapers we prepared in support of this report will be provided to the Department of Finance for its use in compiling the California Single Audit Report for Fiscal Year 1991-92.

Respectfully submitted,

KURT R. SJOBERG
Auditor General (acting)

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Kurt R. Sjoberg
Auditor General (acting)

Independent Auditors' Report

Report on the Schedule of Federal Assistance

Members of the Joint Legislative Audit Committee
State of California

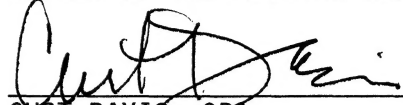
We have not audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1992, and have not issued a report thereon. However, we have audited the State of California's compliance with the requirements governing types of services allowed or not allowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions; federal financial reports and claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal assistance, for the year ended June 30, 1992. The Department of Finance and state management are responsible for the State's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget's (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the State of California's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the State's compliance with federal grant requirements of federal assistance. The information in that schedule has been subjected to the auditing procedures applied in the audit of compliance described above and, in our opinion, is fairly presented in all material respects.

This report is intended for the information of the California State Legislature, including the Joint Legislative Audit Committee, and the management of the executive branch. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Joint Legislative Audit Committee, is a matter of public record.

OFFICE OF THE AUDITOR GENERAL

A handwritten signature in black ink, appearing to read "Curt Davis", is written over a horizontal line.

CURT DAVIS, CPA
Deputy Auditor General

November 3, 1992



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Kurt R. Sjoberg
Auditor General (acting)

Independent Auditors' Report

Report on Compliance With Federal Grant Requirements

Members of the Joint Legislative Audit Committee
State of California

We have not audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1992, and have not issued a report thereon. However, we have audited the State of California's compliance with the requirements governing types of services allowed or not allowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions; federal financial reports and claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal assistance, for the year ended June 30, 1992. The Department of Finance and state management are responsible for the State's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget's (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the State of California's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The scope of our audit did not extend to programs administered by the University of California because the University of California contracts with independent certified public accountants for a financial and an OMB Circular A-133 audit. In addition, our audit of charges made by subrecipients of federal funds was limited to a review of the State's system for monitoring those subrecipients because subrecipients have OMB Circular A-128 audits or OMB Circular A-133 audits performed by independent auditors.

In connection with our audit of the State of California's control structure used to administer federal financial assistance programs, as required by OMB Circular A-128, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended June 30, 1992. As required by Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed, eligibility, and special tests and provisions that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State's compliance with these nonmajor requirements. Accordingly, we do not express such an opinion.

Further, we have applied procedures to test the State of California's compliance with the following requirements applicable to each of its major federal financial assistance programs, which are identified in the schedule of federal assistance, for the year ended June 30, 1992: political activity, Davis-Bacon Act, civil rights, cash management, relocation assistance and real property acquisition, federal financial reports, allowable costs/cost principles, Drug-Free Workplace Act, and administrative requirements.

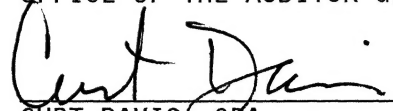
Our procedures were limited to the applicable procedures described in the OMB's, Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of California's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the general and specific requirements identified. With respect to the items not tested, nothing came to our attention that caused us to believe that the State of California had not complied, in all material respects, with those requirements. However, the results of our audit procedures disclosed immaterial instances of noncompliance with those requirements. We discuss those instances of noncompliance and present recommendations to correct them. Additionally, we present a schedule listing instances of noncompliance that we consider to be minor. The instances of noncompliance identified in the State's single audit report for fiscal year 1990-91 that have not been corrected are also included in the individual letters. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the State of California complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions that are applicable; federal financial reports and claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended June 30, 1992.

This report is intended for the information of the California State Legislature, including the Joint Legislative Audit Committee, and the management of the executive branch. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Joint Legislative Audit Committee, is a matter of public record.

OFFICE OF THE AUDITOR GENERAL


CURT DAVIS, CPA
Deputy Auditor General

November 3, 1992



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Independent Auditors' Report

Report on the Internal Control Structure Used in
Administering Federal Financial Assistance Programs

Members of the Joint Legislative Audit Committee
State of California

We have not audited the general purpose financial statements of the State of California, as of and for the year ended June 30, 1992, and have not issued a report thereon. We have audited the compliance of the State of California with requirements applicable to major federal financial assistance programs and have issued our report thereon dated November 4, 1992.

We conducted our audit in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget's (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the State of California complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit for the year ended June 30, 1992, we considered the internal control structure of the State of California, in order to determine our auditing procedures for the purpose of expressing our opinions on the compliance of the State of California with requirements applicable to major programs, and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs.

The Department of Finance and the State's management are responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance

may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: financial activities, including electronic data processing controls; state compliance; and federal compliance. We did not study the internal control structures for the pension trust funds, certain enterprise funds, or the University of California funds.

For all of the internal control structure categories listed above, as they relate to administering federal financial assistance programs, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

Because of the large number of nonmajor programs and the decentralized administration of these programs, we performed procedures to obtain an understanding of the internal control structure policies and procedures relevant to nonmajor programs on a cyclical basis. Our procedures during the current year cover 25 percent of the nonmajor programs administered by the State as a whole. The nonmajor programs not covered during the current year have been subjected to such procedures at least once during the three-year cycle period.

During the year ended June 30, 1992, the State of California received 98 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the State of California's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the State of California's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.


We discuss the reportable conditions and present recommendations to correct them. Management's comments regarding the recommendations are also included. Additionally, we present a schedule listing instances of noncompliance that we consider to be minor. Specific responses to the reportable conditions identified at each state agency are on file with the Department of Finance. The reportable conditions identified in the State's single audit report for fiscal year 1990-91 that have not been corrected are included in the individual letters.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the California State Legislature, including the Joint Legislative Audit Committee, and the management of the executive branch. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Joint Legislative Audit Committee, is a matter of public record.

OFFICE OF THE AUDITOR GENERAL


CURT DAVIS, CPA
Deputy Auditor General

November 3, 1992



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Kurt R. Sjoberg
Auditor General (acting)

October 29, 1992

Management Letter X-420

Russell S. Gould, Secretary
Health and Welfare Agency
1600 Ninth Street, Room 460
Sacramento, California 95814

Dear Mr. Gould:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the Department of Alcohol and Drug Programs' (department) administration of federal programs. We noted certain deviations from federal regulations, which are designed to protect the public's resources. The following comments and recommendations are intended to improve the administration of federal programs.

On October 27, 1992, my staff met with Elaine Bush, Richard Lopez, and several other department officials to discuss weaknesses in the department's administration of the federal Alcohol and Drug Abuse, and Mental Health Services block grant (Federal Catalog No. 93.992) and the federal Drug Free Schools and Communities--State and Local Programs grant (Federal Catalog No. 84.186), as well as recommendations to resolve these weaknesses. The following is a summary of the items discussed during the meeting.

Item 1.

Lack of Independent Peer Reviews of Providers

Finding:

The department does not always conduct independent peer reviews of alcohol and drug treatment providers receiving funds from the Alcohol and Drug Abuse and Mental Health Services (ADMS) block grant. The purpose of an independent peer review is to assess the quality and appropriateness of treatment services provided by entities receiving those funds. We found that the department had not performed independent peer reviews for 13 (26 percent) of the 50 treatment providers we reviewed.

We reported a similar finding in our audits for fiscal years 1989-90 and 1990-91. In its May 28, 1992 response to the latter audit, the department stated it was in the process of resolving the issue with the federal Department of Health and Human Services.

Criteria: The United States Code, Title 42, Section 300x-4(c)(5), requires the department to provide periodic independent peer reviews to assess the quality and appropriateness of treatment services provided by entities receiving funds from the ADMS block grant.

Recommendation: The department should conduct periodic independent peer reviews of providers of alcohol and drug treatment services.

Item 2. **Failure To Fully Monitor the Drug-Free Schools and Communities--State and Local Programs Grant**

Finding: The department does not fully monitor the subrecipients of the Drug-Free Schools and Communities--State and Local Programs (DFSC) grant. The department's subrecipients include counties, nonprofit organizations, and state agencies. During our review of a state agency subrecipient, the Office of Criminal Justice Planning (OCJP), we noted that, although the OCJP submitted a biannual report to the department, the report did not provide sufficient information to identify the proportion of high-risk youths participating in its community-based programs. Consequently, the department did not have enough information to determine whether at least 90 percent of the programs' participants are high-risk youth.

We reported a similar weakness in our audits for fiscal years 1989-90 and 1990-91. In its May 28, 1992 response to the latter audit, the department stated it had taken steps to better document compliance with the requirement that 90 percent of the participants in the community-based programs be high-risk youths.

Criteria: The Code of Federal Regulations, Title 34, Subtitle A, Section 80.40, requires recipients of federal grants to monitor grant-supported activities to ensure compliance with applicable federal requirements. The United States Code, Title 20, Section 3192(b)(1), requires the State to spend at least 50 percent of the DFSC grants on community-based programs designed for high-risk youths. Finally, the United States Code, Title 20, Section 3192(b)(3), requires the State to ensure that at least 90 percent of the participants in the community-based programs be high-risk youths.

Recommendation: The department should ensure that reports submitted by subrecipients contain the specific data necessary to demonstrate compliance with applicable federal requirements.

Item 3. **Failure To Adequately Monitor Cash Balances**

Finding: The department does not have adequate procedures to monitor the cash balances of subrecipients of the ADMS block grant and the DFSC grant. During our review of the quarterly reports of 35 counties submitted for these grants, we noted that 4 of the counties reported cash balances that would last more than 30 days. We found no instance in which the department withheld or adjusted subsequent monthly advances to these 4 counties. We also noted in a test of quarterly reports 18 counties submitted, that 15 counties submitted inaccurate quarterly reports. Without adequate procedures to monitor cash balances, the deficiencies described above could extend to other federal programs because all quarterly reports are processed by the same departmental unit.

We reported a similar weakness in our reports for fiscal years 1989-90 and 1990-91. In its May 28, 1992 response to the latter audit, the department indicated that, during fiscal year 1992-93, it would implement procedures for monitoring subrecipients' cash balances and for advancing them money for federally funded programs.

Because the department does not adequately monitor the cash balances of subrecipients, it cannot be sure that monthly cash advances are limited to the minimum and immediate cash needs of the subrecipients. Consequently, the State may be advancing federal funds to subrecipients before they need the money. If the department fails to limit cash advances to minimum and immediate needs, it could jeopardize future advances of federal ADMS and DFSC grant funds.

Criteria:

The Code of Federal Regulations, Title 31, Section 205.4(a), requires that cash advances to a primary recipient be limited to the minimum amounts needed and be timed to be in accord with only the actual, immediate cash requirements of the recipient. The timing and amount of cash advances must be as close as is administratively feasible to the actual disbursements by the recipient for direct program costs and the proportionate share of any allowable indirect costs. The Code of Federal Regulations, Title 31, Sections 205.4(e), requires that advances by primary recipients to subrecipients conform substantially to these same standards of timing and amount.

Recommendation:

The department should ensure that quarterly cash reports submitted by subrecipients are accurate. Also, it should use the reports to adjust cash advances to subrecipients so that cash on hand is limited to amounts required for immediate needs.

Item 4.

Lack of Documentation To Support the Basis for Fixed-Rate Allocations

Finding:

The department lacks sufficient documentation to support the fixed rates used to allocate costs to certain programs. During our review of the department's cost allocation plan and its cost allocation table, we noted that the department could not provide statistical data or other documentation to justify the basis for the fixed percentage used to allocate costs to certain programs. As a result,

Russell S. Gould, Secretary
Health and Welfare Agency
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the department cannot demonstrate that the costs allocated are equitable relative to the benefits the programs receive.

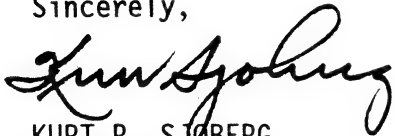
We noted a similar weakness in our audit for fiscal year 1990-91. In its May 28, 1992 response to that year's audit, the department stated that it would maintain documentation to support the fixed percentages used to allocate costs beginning in fiscal year 1992-93.

Criteria: The Code of Federal Regulations, Title 45, Subtitle A, Part 92, Section 92.22 and Title 34, Subtitle A, Part 80, Section 80.22, requires that allowable costs be determined by using the cost principles contained in the Office of Management and Budget, Circular A-87. According to Circular A-87, costs should be allocated to grant programs in accordance with the benefits received.

Recommendation: The department should clearly document and regularly update the basis it uses to determine fixed-rate allocations to ensure that costs are allocated to programs based upon the benefits the programs receive.

If you have a different perception of any of the items summarized above, please let me know by November 5, 1992. We may include these items in the statewide management letter that we will submit to the Department of Finance in May 1993. Thank you for your cooperation.

Sincerely,



KURT R. STOBBERG
Auditor General (acting)

cc: Andrew M. Mecca, Director
Department of Alcohol and Drug Programs



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Kurt R. Sjoberg
Auditor General (acting)

November 3, 1992

Management Letter X-687

David Mertes, Chancellor
California Community Colleges
1107 Ninth Street, Suite 600
Sacramento, California 95814

Dear Mr. Mertes:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the administration of the federal Vocational Education--Basic Grant to States program (Federal Catalog No. 84.048) by the Chancellor's Office--California Community Colleges (office). We noted a deviation from federal regulations, which are designed to protect the public's resources. The following comment and recommendation are intended to improve the office's administration of the federal program.

On November 2, 1992, my staff met with Joe Newmyer, Deidre Din, and Sher Weahunt of the office to discuss the weakness in the office's administration of its contract with the California Department of Education for the federal program. During the meeting, my staff also discussed recommendations to resolve the weakness. The following is a summary of the item discussed during the meeting.

Item

Weaknesses in Cash Management Corrected by Year End

Finding:

The office did not always minimize the time between receiving vocational education funds and disbursing the funds to the subrecipients. Specifically, the office held approximately \$10.2 million in cash advances for 16 working days before disbursing the funds to the subrecipients. We reported a similar weakness in our audits of the last five fiscal years. In its response to our fiscal year 1990-91 audit report dated July 8, 1992, the office stated it had implemented procedures to improve its cash management system. Except for the instance noted above, we noted that the office had improved its cash management during the last half of fiscal year 1991-92.

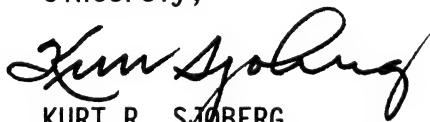
David Mertes, Chancellor
California Community Colleges
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Criteria: The Code of Federal Regulations, Title 31, Section 205.4(a), requires that cash advances be limited to the minimum amounts needed and timed to be in accord with the actual and immediate cash requirements of the funded programs. This section also stipulates that the timing and amount of cash be as close as administratively feasible to the actual disbursement by the recipient organization.

Recommendation: The office should continue to perform the procedures it implemented to improve its cash management system.

If you have a different perception of the item summarized above, please let me know by November 10, 1992. We may include this item in the statewide management letter that we will submit to the Department of Finance at a later date. Thank you for your cooperation.

Sincerely,


KURT R. STÖBERG
Auditor General (acting)



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Kurt R. Sjoberg
Auditor General (acting)

October 6, 1992

Management Letter X-891.5

Bob White, Chief of Staff
Governor's Office
State Capitol, First Floor
Sacramento, California 95814

Dear Mr. White:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the Department of Economic Opportunity's (department) administration of federal programs. We noted certain deviations from federal regulations designed to protect the public's resources. The following comments and recommendations are intended to improve the administration of federal programs. You should be particularly aware that, during fiscal year 1991-92, the department retained excessive federal funds in the state treasury. We observed a similar weakness during our financial audit of the department for fiscal years 1987-88, 1988-89, 1989-90, and 1990-91.

On September 14, 1992, my staff met with Mike Micciche, Toni Curtis, Carmen Ochoa, and Tom Nast of the department to discuss weaknesses in the department's administration of the federal Low-Income Home Energy Assistance Program (Federal Catalog No. 93.028) and Community Services Block Grant (Federal Catalog No. 93.031). We also discussed recommendations to resolve these weaknesses. The following is a summary of the items discussed during the meeting.

Item 1.

Incorrect Payments to HEAP Applicants

Finding:

The department did not correctly calculate payment amounts for all applicants for assistance under the Home Energy Assistance Program (HEAP). The department uses a computer system to calculate the proper amount of HEAP assistance, relying in its calculation on factors such as an applicant's county of residence, the applicant's family size, and the applicant's annual income. The computer system uses the applicant's zip code to determine the county of residence, which in turn is used to determine the relative costs of energy. During the calendar years

1991 and 1992, records indicate that the department paid \$53.9 million to almost 700,000 applicants. However, department records also indicate that, for 1,056 applicants, the department's computer system incorrectly determined the applicant's county of residence. As a result, we estimate that the department underpaid \$2,869 to 146 applicants and overpaid \$12,095 to 910 applicants. These errors were caused by the department's failure to update its computer system with current zip code information. When it does not properly calculate payment amounts for HEAP assistance, the department is not appropriately assisting those applicants with the highest need.

Criteria: The department's State Plan for the HEAP sent to the U.S. Department of Health and Human Services for fiscal year 1991-92 states that the department will provide the highest level of assistance to those applicants who have the lowest incomes and the highest energy costs.

Corrective and Other Actions: The department has corrected the incorrect zip code information in its computer system. Furthermore, the department has modified its procedures for updating zip code information in its computer system. Finally, the department is considering whether to seek reimbursement of the overpayments from the applicants and whether to issue additional payments to those applicants it underpaid.

Recommendations: The department should, as soon as possible, determine whether it is cost-effective to seek reimbursement from those applicants it overpaid and take appropriate action. Furthermore, the department should determine whether it will issue additional payments to those applicants that it underpaid.

Item 2. Improper Cash Management

Finding: During fiscal year 1991-92, the department maintained balances of federal funds that exceeded

its immediate needs. The department retained these excess federal funds in the state treasury from certain prior-year appropriations. Specifically, the beginning balance for these appropriations on July 1, 1991, was approximately \$1.8 million. Subsequent receipts and disbursements reduced the balance to \$244,000 on June 30, 1992. However, this amount was still in excess of the department's immediate cash needs. We reported a similar weakness in our audits for fiscal years 1987-88, 1988-89, 1989-90, and 1990-91. Maintaining excess cash may cause the federal government to cease advancing funds.

Criteria: The Code of Federal Regulations, Title 31, Section 205.4, requires that cash advances be limited to the actual immediate cash needed for carrying out the purpose of the program. This code section also stipulates that the timing and amount of cash advances be as close as administratively feasible to the actual cash disbursement by the recipient organization.

Recommendation: The department should analyze the balances provided by the State Controller and identify any appropriations that have excess cash balances. It should then spend those funds first before drawing down additional federal funds.

Item 3. Improper Subrecipient Cash Management

Finding: From March through May 1992, the department allowed subrecipients of grants for the Weatherization Program and the Energy Crisis Intervention Program to maintain balances of federal funds that exceeded their immediate needs. Specifically, the department allowed four of the nine subrecipients in our sample to maintain cash balances in excess of one-sixth of their contract amounts. The department allowed these subrecipients to maintain the excess balances because, in subsequent months after it advanced 25 percent of the contract amounts to these subrecipients, the department reimbursed the subrecipients for all of their claimed costs without

Bob White, Chief of Staff
Governor's Office
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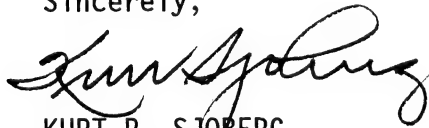
withholding any funds for repayment of the advances. Allowing subrecipients to maintain excess cash balances may cause the federal government to cease advancing funds to the department.

Criteria: The Code of Federal Regulations, Title 31, Section 205.4, requires that cash advances to recipient organizations be limited to the actual immediate cash needed for carrying out the purpose of the program. This section also stipulates that the timing and amount of cash advances be as close as administratively feasible to the actual cash disbursement by the recipient organization. These requirements also apply to subrecipients.

Recommendation: After it has advanced program funds to a subrecipient, the department should, in subsequent months, begin withholding a portion of the subrecipient's reimbursement to repay the advance.

If you have a different perception of any of the items summarized above, please let me know by October 14, 1992. We may include these items in the statewide management letter that we will submit to the Department of Finance. Thank you for your cooperation.

Sincerely,



KURT R. SJOBERG
Auditor General (acting)

cc: Mike Micciche
Acting Director



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

October 23, 1992

Management Letter X-069

Bob White, Chief of Staff
Governor's Office
State Capitol
Sacramento, California 95814

Dear Mr. White:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the Office of Emergency Service's (office) administration of federal programs. We noted certain deviations from federal regulations designed to protect the public's resources. The following comments and recommendation are intended to improve the administration of federal programs. You should be particularly aware that the office has not yet appealed the Federal Emergency Management Agency's (FEMA) denial of \$7.7 million of claimed expenses related to the Loma Prieta earthquake. We observed this same problem during our financial audit of the office for fiscal year 1990-91.

On October 19, 1992, my staff met with Cindy Shamrock, Charles Wynne, and John Eastman of the office to discuss weaknesses in the office's administration of the federal Disaster Assistance program (Federal Catalog No. 83.516) and our recommendation to resolve them. The following is a summary of the item discussed during the meeting.

Item

Delay in Appealing Denied Costs

Finding:

The office has not promptly appealed the Federal Emergency Management Agency's (FEMA) denial of approximately \$7.7 million of claimed expenses related to the Loma Prieta earthquake. We also observed this weakness during our audit of the office for fiscal year 1990-91. As of September 15, 1992, the office had not appealed this determination although the office previously indicated that it planned to make its appeal by May 29, 1992.

Bob White, Chief of Staff
Governor's Office
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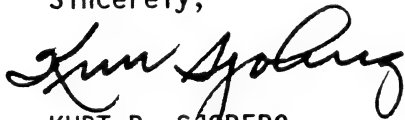
In addition, in our review of grants for two disasters, the Loma Prieta earthquake and the Oakland Hills wildfire, the office has not claimed at least \$47,989 in indirect costs that it should have for fiscal year 1991-92.

Criteria: The State Administrative Manual, Section 0911.4, requires state agencies to secure prompt reimbursement from grant funds for goods and services provided. Consequently, if it believes the FEMA erred in its determination, the office should promptly appeal the FEMA's denial of its claims. The Code of Federal Regulations, Title 44, Section 206.206, describes the process for appealing denied costs.

Recommendation: The office should appeal at least \$7.7 million in denied claims for fiscal year 1990-91, and claim its indirect costs for fiscal year 1991-92.

If you have a different perception of any of the items summarized above, please let me know by October 30, 1992. We may include these items in the statewide management letter that we will submit to the Department of Finance in May 1993. Thank you for your cooperation.

Sincerely,



KURT R. SOOBERG
Auditor General (acting)

cc: Richard Andrews, Ph.D.
Director
Office of Emergency Services



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

November 3, 1992

Management Letter X-610

Honorable Bill Honig, State Superintendent
of Public Instruction
California Department of Education
721 Capitol Mall, Room 524
Sacramento, California 95814

Dear Mr. Honig:

As part of our comprehensive financial and compliance audit of the State of California for the fiscal year ended June 30, 1992, we assessed the California Department of Education's (department) administration of federal programs. We noted certain deviations from federal regulations which are designed to protect the public's resources. The following comments and recommendations are intended to improve the administration of federal programs.

On November 2, 1992, my staff met with William D. Dawson and other representatives of the department to discuss the weaknesses we found in the department's administration of the following federal programs: the Food Distribution program (Federal Catalog No. 10.550); the School Breakfast Program (Federal Catalog No. 10.553); the National School Lunch Program (Federal Catalog No. 10.555); the Child and Adult Care Food Program (Federal Catalog No. 10.558); the Job Training Partnership Act program (Federal Catalog No. 17.250); the Chapter 1 Programs--Local Educational Agencies (Federal Catalog No. 84.010); the Migrant Education--Basic State Formula Grant Program (Federal Catalog No. 84.011); the Special Education--State Grants program (Federal Catalog No. 84.027); the Vocational Education--Basic Grants to States program (Federal Catalog No. 84.048); the Federal, State, and Local Partnerships for Educational Improvement program (Federal Catalog No. 84.151); Eisenhower Mathematics and Science Education--State Grants program (Federal Catalog No. 84.164); the Special Education--Preschool Grants program (Federal Catalog No. 84.173); the Drug-Free Schools and Communities--State Grants program (Federal Catalog No. 84.186); and the State Legalization Impact Assistance Grants program (Federal Catalog No. 93.025). During the meeting, my staff also discussed recommendations to resolve these weaknesses. The following is a summary of the items discussed during the meeting.

Item 1. Weaknesses in Contracting Procedures Within the
Office of Healthy Kids, Healthy California

Finding:

The department has significant weaknesses in the contracting procedures used within its Office of Healthy Kids, Healthy California (office). The office receives funding from the Drug-Free Schools and Communities--State Grants program, a grant of federal funds whose use is restricted to illegal drug and alcohol abuse education and prevention. The office also receives funding from taxes collected under Proposition 99, a proposition that established a surtax on cigarette and tobacco products. The department is restricted to use Proposition 99 funds for education on tobacco use prevention. However, the office has entered into contracts that do not ensure these funds are used for the purposes intended by law. In our review of ten contracts, we found the following weaknesses:

- In four contracts with local educational agencies, the office combined federal drug funds of approximately \$522,000 and state tobacco funds of approximately \$797,000 to sponsor comprehensive health education activities. The department defines comprehensive health education as including the following elements: health education, physical education, health services, counseling services, nutrition services, a safe and healthy environment, health promotion, and parent and community involvement. Since at least a portion of each contract was not for illegal drug, alcohol, and tobacco abuse education and prevention, the office should have used other state funds to support a portion of each contract. We could not determine the amount of federal drug funds and state tobacco funds used for unallowable purposes in these contracts because the office did not identify the amount of effort allotted to each of the health education elements.

Honorable Bill Honig, State Superintendent
of Public Instruction
California Department of Education
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- In addition, one of these four contracts was in part for state-sponsored health promotion conferences. This contract did not contain a complete description of the amounts to be paid for the services provided. Specifically, the contract excluded the fact that the conference attendees were to pay registration fees. The contract also excluded any information on how the local educational agency was to use these registration fees. These registration fees could have totaled up to \$54,000; however, the department has not received information from the local educational agency on the amount of registration fees collected and how they were used.
- The office used federal drug funds and state tobacco funds in a contract that circumvented state civil service hiring practices. The office initiated an interagency agreement for \$35,000 with the California State University to specifically hire two former student assistants so that they could continue to work in the office. In turn, the California State University contracted with the San Jose State University Foundation to fulfill the interagency agreement. Because the interagency agreement was not greater than \$35,000, the contract did not require the Department of General Services' approval. We, along with the department, requested the State Personnel Board to review this contract to determine whether it met the legal requirements under state civil service laws. The State Personnel Board concluded that the contract circumvented the hiring of civil service employees and therefore, was not an approvable contract. However, the services provided under the contract were for allowable purposes under federal law, based on our review.
- The office also does not have a systematic method of determining the funding sources for the payment of invoices. We reviewed six

contracts that were split-funded between state and federal funds. For three contracts, the office had received one invoice for each contract and had charged each invoice to state tobacco funds. In two additional contracts, the office charged invoices to both federal drug funds and state tobacco funds. Finally, in one contract, the office charged three invoices to state tobacco funds and one invoice to federal drug funds. However, the basis used to determine the funding source to pay these invoices was not apparent from the invoice or the contract file.

- In two other contracts with private organizations, we identified costs totalling \$10,500, paid with federal drug funds, that are not allowable under federal laws and regulations. Approximately \$8,600 of these unallowable costs were related to the department's purchase of the California Medical Association's Health Tips publication. However, most of this publication was not related to illegal drug, alcohol, and tobacco abuse education and prevention. The remaining costs, totalling approximately \$1,900, were for a contractor's professional development costs, which were not included in the contract and are not allowable under federal regulations.
- The office allowed two contractors to begin work before the related contracts were approved.

Criteria:

The United States Code, Title 20, Section 3194(b), allows the department to use the program development funds available under the Drug-Free Schools and Communities--State Grants program for training and technical assistance programs concerning drug abuse education and prevention, the development and distribution of material teaching that illicit drug use is harmful, demonstration projects in drug abuse education and prevention, special financial assistance to enhance resources available for drug

Honorable Bill Honig, State Superintendent
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abuse education and prevention in certain areas, and for administrative costs of the State. Also, the draft nonregulatory guidance for the Drug-Free Schools and Communities--State Grants program states that agencies may choose to include drug and alcohol abuse education and prevention as part of a comprehensive health education program; however, the expenditure of Drug-Free Schools and Communities--State Grants program funds must be limited to that part of the program dealing with drug and alcohol abuse education and prevention. In addition, the California Revenue and Taxation Code, Section 30122(b)(1), states that funds within the Health Education Account within the Cigarette and Tobacco Products Surtax Fund shall only be available for appropriation to programs for the prevention and reduction of tobacco use, primarily among children, through school and community health education programs. Moreover, the State Administrative Manual, Section 1205, states that each contract shall contain a clear and complete statement of the services provided and specify the amount to be paid, including the basis for payment. Additionally, the Office of Management and Budget, Circular A-87, states that, for costs to be allowable under a grant program, costs must be authorized or not prohibited under the state's laws and regulations, and be necessary and reasonable for the proper and efficient administration of the federal grant. Further, the Code of Federal Regulations, Title 34, Section 80.20(b)(2), requires that the state and its subgrantees maintain records which identify the source and application of funds provided for federally supported activities. Finally, the State Administrative Manual, Section 1203, states that contracts are effective from the date of the Department of General Services' approval.

Recommendation: The department should ensure that its Office of Healthy Kids, Healthy California administers contracts in accordance with federal and state laws and regulations. Further, the department should ensure that its Office of Healthy Kids, Healthy California only uses Drug-Free Schools and

Honorable Bill Honig, State Superintendent
of Public Instruction
California Department of Education
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Communities--State Grants funds and state tobacco funds for purposes that are specifically allowable under federal and state law.

Item 2.

Possible Incorrect Interpretation of the Federal Regulations for the Drug-Free Schools and Communities--State Grants Program

Finding:

The department may have incorrectly interpreted federal regulations for the Drug-Free Schools and Communities--State Grants program when it calculated the maximum amount it could use for program development and administrative costs for fiscal year 1991-92. Based on its interpretation of federal regulations, the department calculated the maximum amount it could use for program development and administrative costs as 10 percent of the total grant award or approximately \$4.2 million. However, in a memorandum from the United States Department of Education (USDOE), the federal government has calculated the maximum allowable program development and administrative costs as 10 percent of only a portion of the grant award called the "base allocation." Since the base allocation was approximately \$22 million, the USDOE calculates the allowable program development and administrative costs as approximately \$2.2 million. As a result, if the department has incorrectly calculated the amount it could use for program development and administrative costs, it withheld approximately \$2 million that it should have used for entitlements to local educational agencies.

We reported a similar weakness during our audit for fiscal year 1990-91. On July 10, 1992, the department responded to our management letter that it is seeking written clarification from the USDOE on the correct interpretation of these federal regulations. In addition, the department believes its interpretation of the administrative and program development costs is correct. According to the program administrator, the department distributed 90 percent of the base allocation to local

educational agencies (LEAs), the amount required by federal law. However, the program administrator states that the department distributed a portion of these funds to ten LEAs that established ten statewide "Healthy Kids Regional Centers." The purpose of these regional centers is to provide technical assistance to LEAs within their region. Therefore, the program administrator feels the needs of LEAs are served. However, based on our interpretation of federal law, the department's method is incorrect. Federal law requires that the department distribute these funds directly to LEAs based on a prescribed formula. The department directly contracted with the ten LEAs to sponsor the regional centers. We found no evidence in the contracts that they were based on a formula. Instead, the contract award and future amendments appear to be based on the funds available at the time the original contracts and amendments were entered into.

Criteria:

The United States Code, Title 20, Section 3194(b), states that not more than 10 percent of the amounts available under Section 3191(b) may be used for program development and administrative costs. Section 3191(b) states that the amounts allocated to the department shall be used to carry out its responsibilities in accordance with Section 3194 and for grants to local and intermediate educational agencies. The department interprets Section 3191(b) as referring to the entire grant award whereas the memorandum from the USD OE, dated July 15, 1991, interprets this section as referring only to a portion of the grant award called the "base allocation."

Recommendation:

The department should continue its efforts to obtain clarification from the USD OE of the correct interpretation of the federal codes.

Item 3. **Inadequate Procedures for Limiting Cash Advances
to Local Educational Agencies Participating
in the Drug-Free Schools and Communities--
State Grants Program**

Finding: The department does not have adequate procedures to ensure that cash advanced to LEAs participating in the Drug-Free Schools and Communities--State Grants program is limited to the LEAs' immediate cash requirements. Specifically, rather than making payments to the LEAs periodically as the department does for other federal programs, the department paid the LEAs the entire amount of their fiscal year 1991-92 entitlements in one payment at the beginning of the year.

We reported a similar weakness during our audit for fiscal year 1990-91. Beginning in fiscal year 1992-93, the department intends to issue entitlements to the LEAs in several payments throughout the fiscal year. The department is also now requiring the LEAs to provide additional information on the amount of cash they have on hand.

Criteria: The Code of Federal Regulations, Title 34, Section 80.20(b)(7), requires that the timing and amount of cash advances be as close as possible to the actual disbursements by the recipient organization.

Recommendation: The department should continue with its plan to implement procedures to limit cash advances to the immediate needs of the LEAs.

Item 4. **Incorrect Formula for Determining Amount of Federal
Funds Carried Over by Local Educational Agencies
Participating in the Drug-Free Schools and
Communities--State Grants Program**

Finding: The department's formula for calculating the maximum amount of unused federal funds that the LEAs can carry over from the current fiscal year to the following fiscal year is incorrect. The

formula calculates the maximum carry-over as 25 percent of the sum of the current year's grant amount and any carry-over from the previous year. However, federal law restricts the carry-over to 25 percent of the current fiscal year's allocation only. LEAs must return any federal funds in excess of the 25 percent limitation to the department so that it can distribute these unused funds to other LEAs. We identified one LEA that had excess carry-over funds of approximately \$431,000 during fiscal year 1991-92.

Criteria: The United States Code, Title 20, Section 3194(a)(4)(A)(i) and (ii) requires that the LEAs return to the department any unused funds from the current fiscal year's grant amount and that the department reallocate these funds to other LEAs that plan to use the funds on a timely basis. However, Section 3194(a)(4)(B)(i) states that in any fiscal year, the LEAs may retain for obligation in the succeeding fiscal year no more than 25 percent of the allocation it receives during the current fiscal year.

Recommendation: The department should change its procedures to ensure that the LEAs retain no more than 25 percent of the current fiscal year's grant amount for use in the succeeding fiscal year.

Item 5. **Insufficient Monitoring of Local Educational Agencies Participating in the Drug-Free Schools and Communities--State Grants Program**

Finding: In August 1989, the USDOE reported that the department did not formally monitor the LEAs participating in the Drug-Free Schools and Communities--State Grants program. The department responded that it plans to design a dual monitoring system that would include a district-level progress reporting system and a school-site visit monitoring system. As a result, the department now requires the LEAs to include in their application for funding an annual progress report of their previous year's

activities. However, the department could not provide us documentation showing that it performed on-site monitoring visits during fiscal year 1991-92.

We reported a similar weakness during our audit for fiscal year 1990-91. Beginning in fiscal year 1992-93, the department plans to include a review of approximately 50 LEAs for compliance with the Drug-Free Schools and Communities Act in the department's Consolidated Compliance Review monitoring process.

Criteria: The Code of Federal Regulations, Title 34, Section 80.40(a), requires grantees to monitor activities to ensure that the LEAs comply with applicable federal requirements and achieve performance goals.

Recommendation: The department should continue with its efforts to implement on-site monitoring procedures to ensure that the LEAs comply with applicable federal requirements and achieve performance goals.

Item 6. Insufficient Monitoring of Local Educational Agencies Participating in the Eisenhower Mathematics and Science Education--State Grants Program

Finding: In June 1992, the USDOE reported that the department did not systematically monitor the LEAs participating in the Eisenhower Mathematics and Science Education--State Grants program. The USDOE recommended that the department develop a plan to systematically monitor the LEAs for compliance and for program quality, which could include statewide or regional meetings, a selected sample of on-site reviews, and systematic telephone contact. When the department does not sufficiently monitor the LEAs, it can not ensure that they are complying with federal requirements.

Honorable Bill Honig, State Superintendent
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Criteria: The Code of Federal Regulations, Title 34, Section 80.40(a), requires grantees to monitor activities to ensure the LEAs comply with applicable federal requirements and achieve performance goals.

Recommendations: The department should implement a plan to monitor the LEAs to ensure that they comply with applicable federal requirements and that they achieve performance goals.

Item 7. Insufficient Control Over Expenditure Reports
From Local Educational Agencies Participating
in the Eisenhower Mathematics and Science
Education--State Grants Program

Finding: The department does not ensure that all LEAs submit expenditure reports and does not promptly bill school districts for unused funds for the Eisenhower Mathematics and Science Education--State Grants program. We selected for review 30 LEAs that should have submitted expenditure reports during fiscal year 1991-92 and found the following:

- As of September 30, 1992, three LEAs had not submitted expenditure reports for fiscal year 1990-91 even though the expenditure reports were due on January 17, 1992. In total, for fiscal year 1990-91, the department had advanced the three LEAs approximately \$1,800. If the expenditure reports are not submitted promptly, the department cannot determine whether the LEAs spent all funds paid or should return unused funds.
- The department uses the expenditure reports to identify unused funds that should be returned to the department and, in turn, to the federal government. For six school districts whose expenditure reports for fiscal year 1990-91 were dated between December 16, 1991, and May 29, 1992, the department identified approximately \$6,100 in unused funds. As of September 30, 1992, or between four to nine

months after the date of the expenditure reports, the department had yet to bill these school districts for the unused funds. As a result, the LEAs are holding excess federal funds that should be returned to the federal government.

Criteria: The Code of Federal Regulations, Title 34, Section 76.722, states that a state may require an LEA to furnish reports that the state needs to carry out its responsibilities under the program. The department required that the LEAs submit an expenditure report for fiscal year 1990-91 with a due date of January 17, 1992. Additionally, the Code of Federal Regulations, Title 31, Section 205.4(a), requires that the timing and amount of cash advances be as close as administratively feasible to the actual disbursement by the recipient organization. Once the department recognizes that the recipient organization has not used its entire cash advance, the State Administrative Manual, Section 8776.2, requires agencies to prepare and send out an invoice or other type of claim document as soon as possible after the recognition of a claim.

Recommendation: The department should ensure that all LEAs submit an expenditure report. Additionally, the department should promptly bill the LEAs for any unused funds.

Item 8. **Inadequate Procedures To Ensure That Private, Nonprofit Agencies Comply With Federal Regulations**

Finding: The department does not sufficiently monitor the audit reports that private, nonprofit agencies submit to the department for the National School Lunch and School Breakfast (NSLB) programs and the State Legalization Impact Assistance Grants (SLIAG) program. We found the following specific problems:

- The department was not able to provide us with a list of private, nonprofit agencies of the NSLB programs that were required to submit an

audit report for fiscal year 1990-91. Additionally, the department could not provide us with 5 of 20 audit reports we selected for review related to the NSLB programs. As a result, we could not conclude the department properly monitored the receipt of the required audit reports for the NSLB programs or that it resolved instances of noncompliance included in the audit reports. We observed a similar weakness during our financial audit for fiscal year 1990-91.

- The department did not obtain audit reports from 15 of the 44 private, nonprofit agencies participating in the SLIAG program that were required to submit audit reports in fiscal year 1990-91. The department is responsible for ensuring that subrecipients meet the federal requirement to obtain independent audits. Unless the department receives the audit reports, it cannot be sure that subrecipients participating in the SLIAG program complied with this requirement. Further, the department cannot determine if the subrecipients complied with the terms and conditions of the SLIAG program. We observed a similar weakness during our financial audit for fiscal years 1989-90 and 1990-91.

Criteria:

According to the federal Office of Management and Budget, Circular A-133, state or local governments that allocate \$25,000 or more of federal financial assistance to nonprofit institutions must ensure that the nonprofit institutions obtain an independent audit that determines whether federal financial assistance was spent in accordance with applicable laws and regulations. Additionally, Circular A-133 states that audits shall usually be performed annually but not less frequently than every two years. Finally, a departmental policy directed to all school nutrition program sponsors requires that private, nonprofit agencies submit annual audits to the department.

Recommendation: The department should sufficiently monitor the audit reports submitted by private, nonprofit agencies and ensure that they obtain independent audits at least every two years.

Item 9. Inadequate Procedures To Ensure That Local Educational Agencies Comply With Federal Regulations

Finding: The department did not adequately review the audit reports submitted by the LEAs for fiscal year 1989-90. Additionally, the department did not ensure the LEAs resolved within six months all instances of noncompliance with federal laws and regulations identified in the fiscal year 1990-91 audit reports. We reviewed the department's procedures for resolving instances of noncompliance identified in audit reports submitted by the LEAs and found the following specific deficiencies:

- For its review of the fiscal year 1989-90 audit reports, the department implemented new procedures for resolving instances of noncompliance. These new procedures required that the department only resolve those instances of noncompliance that were included in the audit reports for two consecutive years or that had a financial impact. Thus, among the approximately 1,400 instances of noncompliance in all audit reports, the department identified almost 250 instances of noncompliance, and the new procedures required the department to resolve those instances. However, because the department did not require the LEAs to resolve the remaining 1,150 instances of noncompliance identified in the audit reports, the department cannot be certain the LEAs complied with federal laws and regulations.
- For its review of the fiscal year 1990-91 audit reports, the department implemented new procedures designed to ensure that the LEAs resolve all instances of noncompliance with

federal laws and regulations. We found that 21 of 30 audit reports we reviewed identified instances in which the LEA did not comply with federal laws and regulations. For 19 of these 21, the department did not ensure that the LEAs resolved within six months the instances of noncompliance with federal laws and regulations identified in these reports. As of October 1, 1992, the department had resolved the instances of noncompliance identified in 12 of the 19 audit reports and has begun to resolve the instances of noncompliance in the remaining seven audit reports.

Criteria: According to the federal Office of Management and Budget, Circular A-128, state or local governments that allocate \$25,000 or more of federal financial assistance to a subrecipient must determine whether subrecipients spent federal financial assistance in accordance with applicable laws and regulations. Circular A-128 requires that state or local governments ensure that appropriate corrective action is taken within six months of receipt of the audit reports.

Recommendation: The department should ensure that it requires the LEAs to correct all instances of noncompliance with federal laws and regulations identified in the audit reports within six months.

Item 10. **Delay in Disbursing Federal Grant Monies**

Finding: The department's cash management system does not minimize the amount of time between receiving federal funds and disbursing them to subrecipients. We tested 207 claims to determine the amount of time between receipt and disbursement. We found that, for 14 claims, the State was from one to eight days late in disbursing the funds, for an average delay of 3.14 days. We observed similar weaknesses during our financial audit for fiscal years 1987-88 through 1990-91.

Criteria: The Code of Federal Regulations, Title 31, Section 205.4(a), requires that the timing and amount of cash advances be as close as administratively feasible to the actual disbursement by the recipient organization. We consider a delay of no more than five working days as administratively feasible.

Recommendation: The department should improve its compliance with federal requirements by minimizing the delay between the receipt of federal funds and the actual disbursement.

Item 11.

Noncompliance With Other Federal Requirements

Findings and
Criteria:

In the following instances, the department did not always comply with administrative requirements of the federal government:

- We reviewed 30 applications from the LEAs for the Drug-Free Schools and Communities--State Grants program. We found that one application was substantially incomplete, one application had no evidence of approval, three applications did not contain required progress reports, one application did not contain required program assurances, and two applications' budget summary amounts did not agree with the amount received under the grant. The United States Code, Title 20, Section 3196(a)(2)(R), requires the LEAs to submit applications and provide information and assurances that the state educational agency responsible for distributing the grant funds reasonably determines to be necessary.
- The department could not provide us with one of 30 applications we selected for review for the Eisenhower Mathematics and Science Education--State Grants program. The Code of Federal Regulations, Title 34, Section 208.22 requires the LEAs to submit applications in

order to receive funds for the Eisenhower Mathematics and Science Education--State Grants program.

- Each year, the department reports to the USDOE the state's average per pupil expenditure data on the National Public Education Financial Survey form (survey). Of ten LEAs we selected for testing, the department was not able to locate documentation to support the expenditure information included in the survey for one LEA and the revenue information for another one. Additionally, the department overstated total revenues of approximately \$22 billion by approximately \$11.9 million because it made input errors when accumulating the revenue information included in the survey. The United States Code, Title 20, Section 2711(a)(2)(A), requires that the state's average per pupil expenditure data be used for the allocation of Chapter 1 funds. The USDOE requests that the department submit this information on the National Public Education Financial Survey form. Finally, good accounting practice dictates that the information included in the survey be supported and accurate.
- The department did not review the required 50 percent of all processors participating in the Food Distribution program for fiscal year 1991-92. Instead, the department reviewed only 8 of 32, or 25 percent of all processors. However, even though only 8 processors were reviewed during fiscal year 1991-92, the department had reviewed the other 24 processors during fiscal year 1990-91 and thus had reviewed all processors within two years. The Code of Federal Regulations, Title 7, Section 250.19(b)(ii), requires the department to perform an on-site review of all processors at least once every two years with no fewer than 50 percent being reviewed each year.

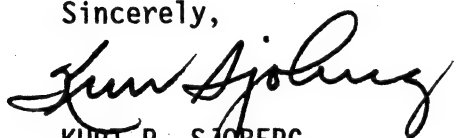
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Although individually these deviations may not appear to be significant, they do represent noncompliance with federal regulations, which are designed to protect the public's resources from abuse.

Recommendation: The department should improve its compliance with each of the federal requirements.

If you have a different perception of any of the items summarized above, please let me know by November 10, 1992. We may include these items in the statewide management letter that we will submit to the Department of Finance at a later date. Thank you for your cooperation.

Sincerely,



KURT R. SJOBERG
Auditor General (acting)

cc: Peggy Peters, Acting Audit Response Coordinator
California Department of Education



CALIFORNIA STATE DEPARTMENT OF EDUCATION

Bill Honig

721 Capitol Mall; P.O. Box 944272

Superintendent

Sacramento, CA 94244-2720

of Public Instruction

November 10, 1992

Kurt R. Sjoberg, Auditor General (acting)
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Management Letter X-610

Dear Mr. Sjoberg:

Thank you for the opportunity to review the management letter reporting the results of your federal compliance review of the California Department of Education (CDE) as part of the comprehensive financial and compliance audit of the State of California for the fiscal year ended June 30, 1992. Enclosed are responses to each of your findings and descriptions of the action we have taken or plan to take to implement each of your recommendations.

If you have questions about our response, please contact Peggy Peters, Audit Response Coordinator, at (916) 657-4440.

Sincerely,

A handwritten signature in dark ink, appearing to read "William D. Dawson", is written over the typed name.

William D. Dawson
Executive Deputy Superintendent

WDD:map

Enclosure

**CALIFORNIA DEPARTMENT OF EDUCATION
RESPONSES TO SINGLE AUDIT FINDINGS
FISCAL YEAR 1991-92**

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Item 1. Weaknesses in Contracting Procedures Within the Office of Healthy Kids, Healthy California

Finding: The department has significant weaknesses in the contracting procedures used within its Office of Healthy Kids, Healthy California (office). The office receives funding from the Drug-Free Schools and Communities--State Grants program, a grant of federal funds whose use is restricted to illegal drug and alcohol abuse education and prevention. The office also receives funding from taxes collected under Proposition 99, a proposition that established a surtax on cigarette and tobacco products. The department is restricted to use Proposition 99 funds for education on tobacco use prevention. However, the office has entered into contracts that do not ensure these funds are used for the purposes intended by law. In our review of ten contracts, we found the following weaknesses:

- In four contracts with local educational agencies, the office combined federal drug funds of approximately \$522,000 and state tobacco funds of approximately \$797,000 to sponsor comprehensive health education activities. The department defines comprehensive health education as including the following elements: health education, physical education, health services, counseling services, nutrition services, a safe and healthy environment, health promotion, and parent and community involvement. Since at least a portion of each contract was not for illegal drug, alcohol, and tobacco abuse education and prevention, the office should have used other state funds to support a portion of each contract. We could not determine the amount of federal drug funds and state tobacco funds used for unallowable purposes in these contracts because the office did not identify the amount of effort allotted to each of the health education elements.
- In addition, one of these four contracts was in part for state-sponsored health promotion conferences. This contract did not contain a complete description of the amounts to be paid for the services provided. Specifically, the contract excluded the fact that the conference attendees were to pay registration fees. The contract also excluded any information on how the local educational agency was to use these registration fees. These registration fees could have totaled up to \$54,000; however, the department has not received information from the local

educational agency on the amount of registration fees collected and how they were used.

- The office used federal drug funds and state tobacco funds in a contract that circumvented state civil service hiring practices. The office initiated an interagency agreement for \$35,000 with the California State University to specifically hire two former student assistants so that they could continue to work in the office. In turn, the California State University contracted with the San Jose State University Foundation to fulfill the interagency agreement. Because the interagency agreement was not greater than \$35,000, the contract did not require the Department of General Services' approval. We, along with the department, requested the State Personnel Board to review this contract to determine whether it met the legal requirements under state civil service laws. The State Personnel Board concluded that the contract circumvented the hiring of civil service employees and therefore, was not an approvable contract. However, the services provided under the contract were for allowable purposes under federal law, based on our review.
- The office also does not have a systematic method of determining the funding sources for the payment of invoices. We reviewed six contracts that were split-funded between state and federal funds. For three contracts, the office had received one invoice for each contract and had charged each invoice to state tobacco funds. In two additional contracts, the office charged invoices to both federal drug funds and state tobacco funds. Finally, in one contract, the office charged three invoices to state tobacco funds and one invoice to federal drug funds. However, the basis used to determine the funding source to pay these invoices was not apparent from the invoice or the contract file.
- In two other contracts with private organizations, we identified costs totalling \$10,500, paid with federal drug funds, that are not allowable under federal laws and regulations. Approximately \$8,600 of these unallowable costs were related to the department's purchase of the California Medical Association's Health Tips publication. However, most of this publication was not related to illegal drug, alcohol, and tobacco abuse education and prevention. The remaining costs, totalling approximately \$1,900, were for a contractor's professional development costs, which were not

included in the contract and are not allowable under federal regulations.

- The office allowed two contractors to begin work before the related contracts were approved.

Criteria: The United States Code, Title 20, Section 3194(b), allows the department to use the program development funds available under the Drug-Free Schools and Communities--State Grants program for training and technical assistance programs concerning drug abuse education and prevention, the development and distribution of material teaching that illicit drug use is harmful, demonstration projects in drug abuse education and prevention, special financial assistance to enhance resources available for drug abuse education and prevention in certain areas, and for administrative costs of the State. Also, the draft nonregulatory guidance for the Drug-Free Schools and Communities--State Grants program states that agencies may choose to include drug and alcohol abuse education and prevention as part of a comprehensive health education program; however, the expenditure of Drug-Free Schools and Communities--State Grants program funds must be limited to that part of the program dealing with drug and alcohol abuse education and prevention. In addition, the California Revenue and Taxation Code, Section 30122(b)(1), states that funds within the Health Education Account within the Cigarette and Tobacco Products Surtax Fund shall only be available for appropriation to programs for the prevention and reduction of tobacco use, primarily among children, through school and community health education programs. Moreover, the State Administrative Manual, Section 1205, states that each contract shall contain a clear and complete statement of the services provided and specify the amount to be paid, including the basis for payment. Additionally, the Office of Management and Budget, Circular A-87, states that, for costs to be allowable under a grant program, costs must be authorized or not prohibited under the state's laws and regulations, and be necessary and reasonable for the proper and efficient administration of the federal grant. Further, the Code of Federal Regulations, Title 34, Section 80.20(b)(2), requires that the state and its subgrantees maintain records which identify the source and application of funds provided for federally supported activities. Finally, the State Administrative Manual, Section 1203, states that contracts are effective from the date of the Department of General Services' approval.

Recommendation: The department should ensure that its Office of Healthy Kids, Healthy California administers contracts in

accordance with federal and state laws and regulations. Further, the department should ensure that its Office of Healthy Kids, Healthy California only uses Drug-Free Schools and Communities--State Grants funds and state tobacco funds for purposes that are specifically allowable under federal and state law.

Response: Subitem a: The California Department of Education (CDE) has taken significant steps toward a comprehensive and coordinated program approach focusing on children's health and well-being. Educators today recognize that children come to school with many of their basic needs for health and safety unmet. Comprehensive school health programs are a basic and necessary ingredient of effective education and the prevention of drug, alcohol and tobacco abuse.

Many of the Healthy Kids Healthy California (HKHC) contracts are split-funded between federal Drug-Free Schools and Communities--State Grants and state tobacco funds. There is so much overlap between activities, it is often more feasible to combine funding into one contract. The focus of the contracts in question are related to drug, alcohol, and tobacco-use prevention. However, health counseling, nutrition, and physical education services and parent and community involvement play an extremely important role in the total well-being of the child. If a child is healthy, he is less likely to become an abuser of drug, alcohol or tobacco.

To identify funding sources and uses, the CDE is requiring separate budgets for each funding source in all new contracts or contract amendments. The CDE is currently seeking additional clarification from the U.S. Department of Education of its definition of comprehensive health as it applies to the federal Drug-Free Schools and Communities Act. Based on the U.S. Department of Education response, the CDE will ensure that federal Drug-Free Schools program funds are only used for the purposes specifically allowed under federal laws and regulations.

Subitem b: The CDE agrees with this finding. It was an oversight not to include information regarding registration fees in the contract with the Placer County Office of Education. The HKHC Office has received the final expenditure report from Placer County Office of Education. The report includes an accounting of all income and expenditures by category (see Attachment A). The report states \$22,401 was received in registration income and total contract expenditures were \$132,201.

In the future, the HKHC Office will more carefully review contracts and grants to ensure that all services to be performed are included in the contract language and specifically described in the cost, timeline, and services-to-be-provided sections of the contract.

Subitem c: In June 1991, due to budget cuts and the redirection of CDE resources, the HKHC Office lost four positions. In November 1991, after discussions between the project monitor of the California State University (CSU) Hornet Foundation (student) and the CDE's Contract Office Manager, the CDE entered into an interagency agreement with the CSU Trustees to retain the services of two former graduate students based on the justification that these individuals were exempt from civil service as described in Section 4 of Article VII of the California Constitution. In March 1992, the CDE prepared an amendment to the interagency agreement to increase the funding and extend the timeline. The amendment was submitted to the Department of General Services for approval.

The Department of General Services (DGS) requested additional information from the CDE to clarify an interpretation of interjurisdictional exchange of employees. The CDE requested that the State Personnel Board review the CDE's interagency agreement with the CSU Trustees to clarify the issue for the DGS. In addition, at the same time, the DGS and the Office of the Auditor General requested clarification from the State Personnel Board.

At no time did the CDE consider the interagency agreement to be a violation of civil service hiring procedures. The two individuals were no longer students and therefore ineligible for employment under Government Code Section 19133. The CDE entered into the agreement merely in a good faith effort to continue their services with the HKHC Office.

The HKHC Office is working with the CDE's Contract Office and the State Personnel Board to ensure compliance with civil service hiring practices.

Subitem d: To identify expenditures by funding source, the CDE now requires budgets by funding source on all new contracts and contract amendments.

Subitem e: One of the contracts with private organizations identified as not allowable under federal laws and regulations was a contract with the California Medical Association to produce a health education

resource for county office of education, school district, health organization, and other health educators. This contract was a joint effort and at the request of the California Medical Association.

Federal Drug-Free Schools and Communities--State Grants Program funds were used to support this publication because the CDE considers comprehensive health to include all health related issues, including those identified as high risk factors and those which include the health and well being of individuals. Comprehensive health education reduces the occurrence of drug, alcohol and tobacco abuse.

The CDE is currently seeking additional clarification from the U.S. Department of Education of its definition of comprehensive health as it applies to the federal Drug-Free Schools and Communities Act. Based on the U.S. Department of Education response, the CDE will ensure that federal Drug-Free Schools program funds are only used for the purposes specifically allowed under federal laws and regulations.

The second identified contract provides ongoing maintenance and technical assistance to the CDE's statewide electronic telecommunications system (PREVNET). The \$1,900 in questioned costs identified for this contract represent \$1,000 for (4 days at \$250 per day) and approximately \$900 in out-of-state travel costs. The out-of-state travel was omitted from the contract language.

This contract was awarded because the contractor is the sole provider of the contract services and possesses the technical computer knowledge and expertise necessary to implement the CDE's telecommunications system (PREVNET) statewide. The contract required the acquisition of software development knowledge and installation procedures for new state-of-the-art hardware designed to expand the on-line capacity of informational resources. The contractor attended an out-of-state National States Consortium workshop at the our request to obtain information on the current state-of-the-art hardware. His attendance ensured the involvement of California in the national consortium and the receipt of development information for improvement of the PREVNET system. The CDE does not agree that the out-of-state trip was for the professional development of the contractor. The purpose of the trip was to provide the contractor with the information needed to upgrade the CDE's PREVNET system.

Subitem f: One of the contracts in which the contractor reportedly began work before the contract was approved was the CDE's contract with the Californians for Drug-Free Youth, Inc. for development of educational packets. The CDE prepared a sole source justification and the contract was approved by the Office of Small and Minority Business, Department of General Services, on April 7, 1992. The contract start date was May 1, 1992. The Department of General Services approved the contract on June 29, 1992.

The CDE informed the contractor that no work related to the development of the educational packets could begin without approval by the Department of General Services. The contractor chose to use other funding sources to develop, print and mail educational packets to every school before the close of the school year in early June. The contractor understood that their agency would not be reimbursed if their CDE contract was not approved. The contractor chose to take this risk.

The second contract identified in this finding is the CDE's contract with Computer Access for maintenance of the PREVNET system. In December 1991, an amendment was prepared to increase funding by \$20,000 and extend the contract for six months to June 30, 1992. The purpose of the extension was to allow the HKHC Office to look into a more cost-effective and efficient means of continuing the PREVNET telecommunications system. Because of the increase in funding, a new sole source exemption was required to amend the contract. The sole source exemption was not approved by the Office of Procurement. The Office of Procurement requested additional information which the CDE provided in February 1992 after conferring with the CDE's Information Systems Division and the Department of Finance regarding the computerized system. The Office of Procurement approved the contract amendment in March 1992.

Because over thirty days had lapsed since the ending date of the contract, December 31, 1991, the CDE decided that a new contract with this contractor was more appropriate than a contract amendment. A new contract was prepared with a start date of February 27, 1992. In a good faith effort to maintain the operation of the PREVNET system during the time of the contract preparation, review and approval, the contractor continued his services.

The HKHC Office will, in the future, allow sufficient lead time when processing sole source contracts where specialized skills and expertise are critical to the continued operation of statewide computer data systems.

Item 2. Possible Incorrect Interpretation of the Federal Regulations for the Drug-Free Schools and Communities--State Grants Program

Finding: The department may have incorrectly interpreted federal regulations for the Drug-Free Schools and Communities--State Grants program when it calculated the maximum amount it could use for program development and administrative costs for fiscal year 1991-92. Based on its interpretation of federal regulations, the department calculated the maximum amount it could use for program development and administrative costs as 10 percent of the total grant award or approximately \$4.2 million. However, in a memorandum from the United States Department of Education (USDOE), the federal government has calculated the maximum allowable program development and administrative costs as 10 percent of only a portion of the grant award called the "base allocation." Since the base allocation was approximately \$22 million, the USDOE calculates the allowable program development and administrative costs as approximately \$2.2 million. As a result, if the department has incorrectly calculated the amount it could use for program development and administrative costs, it withheld approximately \$2 million that it should have used for entitlements to local educational agencies.

We reported a similar weakness during our audit for fiscal year 1990-91. On July 10, 1992, the department responded to our management letter that it is seeking written clarification from the USDOE on the correct interpretation of these federal regulations. In addition, the department believes its interpretation of the administrative and program development costs is correct. According to the program administrator, the department distributed 90 percent of the base allocation to local educational agencies (LEAs), the amount required by federal law. However, the program administrator states that the department distributed a portion of these funds to ten LEAs that established ten statewide "Healthy Kids Regional Centers." The purpose of these regional centers is to provide technical assistance to LEAs within their region. Therefore, the program administrator feels the needs of LEAs are served. However, based on our interpretation of federal law, the department's method is incorrect. Federal law requires that the department distribute these funds directly to LEAs based on a prescribed formula. The department directly contracted with the ten LEAs to sponsor the regional centers. We found no evidence in the contracts that they were based on a formula. Instead, the contract award and future

amendments appear to be based on the funds available at the time the original contracts and amendments were entered into.

Criteria: The United States Code, Title 20, Section 3194(b), states that not more than 10 percent of the amounts available under Section 3191(b) may be used for program development and administrative costs. Section 3191(b) states that the amounts allocated to the department shall be used to carry out its responsibilities in accordance with Section 3194 and for grants to local and intermediate educational agencies. The department interprets Section 3191(b) as referring to the entire grant award whereas the memorandum from the USDOE, dated July 15, 1991, interprets this section as referring only to a portion of the grant award called the "base allocation."

Recommendation: The department should continue its efforts to obtain clarification from the USDOE of the correct interpretation of the federal codes.

Response: To comply with 20 USC 3191(b), the CDE has provided 90 percent of the base allocation and all of the additional funds provided under the Drug-Free Schools and Communities--State Grants program to local educational agencies. In 1991-92, the CDE provided a portion of these funds to ten county offices of education serving as statewide regional centers based on an average daily attendance formula. The CDE used the average daily attendance of the regional area rather than enrollment because county offices of education provide services based on average daily attendance, not enrollment.

However, to fully comply with the federal regulations, all regional center contracts for 1992-93 are being amended to provide funding based on enrollment and not average daily attendance. The CDE is continuing to obtain written clarification from the U.S. Department of Education regarding the distribution of part of the base allocation to the ten regional centers.

Item 3. Inadequate Procedures for Limiting Cash Advances to Local Educational Agencies Participating in the Drug-Free Schools and Communities--State Grants Program

Finding: The department does not have adequate procedures to ensure that cash advanced to LEAs participating in the Drug-Free Schools and Communities--State Grants program is limited to the LEAs' immediate cash requirements. Specifically, rather than making payments to the LEAs periodically as the department does for other federal programs, the department paid the LEAs the entire amount of their fiscal year 1991-92 entitlements in one payment at the beginning of the year.

We reported a similar weakness during our audit for fiscal year 1990-91. Beginning in fiscal year 1992-93, the department intends to issue entitlements to the LEAs in several payments throughout the fiscal year. The department is also now requiring the LEAs to provide additional information on the amount of cash they have on hand.

Criteria: The Code of Federal Regulations, Title 34, Section 80.20(b)(7), requires that the timing and amount of cash advances be as close as possible to the actual disbursements by the recipient organization.

Recommendation: The department should continue with its plan to implement procedures to limit cash advances to the immediate needs of the LEAs.

Response: The CDE has taken action to limit cash advances to LEAs. As stated in the finding, the CDE is disbursing the 1992-93 Drug-Free Schools and Communities--State Grants Program funds to LEAs in three installments. Attachment B is a copy of the grant award letter in which the CDE advised LEAs that 60 percent of the award will be paid in November, 20 percent in January, and 20 percent in June.

Item 4. Incorrect Formula for Determining Amount of Federal Funds Carried Over by Local Educational Agencies Participating in the Drug-Free Schools and Communities--State Grants Program

Finding: The department's formula for calculating the maximum amount of unused federal funds that the LEAs can carry over from the current fiscal year to the following fiscal year is incorrect. The formula calculates the maximum carry-over as 25 percent of the sum of the current year's grant amount and any carry-over from the previous year. However, federal law restricts the carry-over to 25 percent of the current fiscal year's allocation only. LEAs must return any federal funds in excess of the 25 percent limitation to the department so that it can distribute these unused funds to other LEAs. We identified one LEA that had excess carry-over funds of approximately \$431,000 during fiscal year 1991-92.

Criteria: The United States Code, Title 20, Section 3194(a)(4)(A)(i) and (ii) requires that the LEAs return to the department any unused funds from the current fiscal year's grant amount and that the department reallocate these funds to other LEAs that plan to use the funds on a timely basis. However, Section 3194(a)(4)(B)(i) states that in any fiscal year, the LEAs may retain for obligation in the succeeding fiscal year no more than 25 percent of the allocation it receives during the current fiscal year.

Recommendation: The department should change its procedures to ensure that the LEAs retain no more than 25 percent of the current fiscal year's grant amount for use in the succeeding fiscal year.

Response: The 1990-91 Drug, Alcohol and Tobacco Education (DATE) application did not clearly state the 25 percent carryover provision restriction. However, the 1991-92 DATE application was amended and specifically states that carryover for the Drug-Free Schools and Communities--State Grant Program is calculated not to exceed "a maximum of 25 percent of the annual appropriation." To further ensure that there is no misunderstanding, the CDE revised the 1992-93 DATE application to state "a maximum of 25 percent of the 1991-92 entitlement amount, not including any previous year carryover." Attachments C and D are copies of 1991-92 and 1992-93 DATE application instructions on carryover.

In the case of Los Angeles City Unified School District, cited in your finding, the additional carryover was

provided in their 1991-92 DATE application budget which includes a plan designed around the Drug-Free Schools program requirements. 20 USC 3194(a)(4)(B)(ii) provides that amounts greater than 25 percent may be carried over if approved by the state education agency if the LEA demonstrates "good cause" for utilizing and expending the funds in a timely manner. The LEA must submit a plan outlining the purpose and timeline for use of these carryover funds. The LEA must also demonstrate assurance of expenditures according to the law. The Los Angeles City DATE application provided this information.

Item 5. Insufficient Monitoring of Local Educational Agencies Participating in the Drug-Free Schools and Communities--State Grants Program

Finding: In August 1989, the USDOE reported that the department did not formally monitor the LEAs participating in the Drug-Free Schools and Communities--State Grants program. The department responded that it plans to design a dual monitoring system that would include a district-level progress reporting system and a school-site visit monitoring system. As a result, the department now requires the LEAs to include in their application for funding an annual progress report of their previous year's activities. However, the department could not provide us documentation showing that it performed on-site monitoring visits during fiscal year 1991-92.

We reported a similar weakness during our audit for fiscal year 1990-91. Beginning in fiscal year 1992-93, the department plans to include a review of approximately 50 LEAs for compliance with the Drug-Free Schools and Communities Act in the department's Consolidated Compliance Review monitoring process.

Criteria: The Code of Federal Regulations, Title 34, Section 80.40(a), requires grantees to monitor activities to ensure that the LEAs comply with applicable federal requirements and achieve performance goals.

Recommendation: The department should continue with its efforts to implement on-site monitoring procedures to ensure that the LEAs comply with applicable federal requirements and achieve performance goals.

Response: The CDE agrees with this finding. HKHC Office staff have been working with the Compliance and Consolidated Programs Management Division to participate in the Coordinated Compliance Reviews (CCR) scheduled for 1992-93. The CCRs for 1992-93 will include a review of the Drug-Free Schools and Communities--State Grant Program. HKHC staff attended training sessions and developed the review instrument. Attachment E is a copy of the CCR for the Drug-Free Schools and Communities--State Grant Program.

As reported in our response to the 1990-91 single audit findings, the CDE contracted with the Los Angeles County Office of Education to develop a monitoring visitation plan to be used by each county. The county office developed a quality review instrument for LEAs to use in self-evaluating their implementation of DATE programs.

In addition, the CDE is currently contracting with Southwest Regional laboratories to conduct a three-year evaluation of the DATE Program, as required by the Legislature to provide:

- statistical information regarding student behavior;
- program costs and how funds are used; and
- in-depth case studies on school districts identifying what does and does not work.

Results from this study will be available in 1994.

Item 6. Insufficient Monitoring of Local Educational Agencies Participating in the Eisenhower Mathematics and Science Education--State Grants Program

Finding: In June 1992, the USDOE reported that the department did not systematically monitor the LEAs participating in the Eisenhower Mathematics and Science Education--State Grants program. The USDOE recommended that the department develop a plan to systematically monitor the LEAs for compliance and for program quality, which could include statewide or regional meetings, a selected sample of on-site reviews, and systematic telephone contact. When the department does not sufficiently monitor the LEAs, it can not ensure that they are complying with federal requirements.

Criteria: The Code of Federal Regulations, Title 34, Section 80.40(a), requires grantees to monitor activities to ensure the LEAs comply with applicable federal requirements and achieve performance goals.

Recommendations: The department should implement a plan to monitor the LEAs to ensure that they comply with applicable federal requirements and that they achieve performance goals.

Response: The 1992-93 LEA application for Eisenhower Mathematics and Science Education--State Grants program was revised to request additional budget and programmatic information. The CDE will conduct informational workshops at the statewide California Teachers Association and the California Mathematics Council Meetings to assist LEAs with completion of their applications. The CDE has established positions for additional clerical and technical support and is currently filling the positions to assist with record keeping, report processing, and information dissemination for the Eisenhower program. Establishment of these positions was delayed due to the state budget situation of the past few years.

The CDE is currently developing a plan to systematically monitor LEA programs. The plan will include a pattern and time table for LEA site visits and telephone calls. The plan will include a sampling of LEAs each year.

In addition to the plan for monitoring, the CDE has let a contract for a performance evaluation to be conducted by Policy Analysis for California Education (PACE), an independent research organization. The evaluation will

provide the CDE with information about the overall effectiveness of the Eisenhower program.

Finally, the LEA application for 1992-95 was revised to require annual updates. The annual update will require that LEAs focus on program administration at least once a year.

Item 7. Insufficient Control Over Expenditure Reports From Local Educational Agencies Participating in the Eisenhower Mathematics and Science Education--State Grants Program

Finding: The department does not ensure that all LEAs submit expenditure reports and does not promptly bill school districts for unused funds for the Eisenhower Mathematics and Science Education--State Grants program. We selected for review 30 LEAs that should have submitted expenditure reports during fiscal year 1991-92 and found the following:

As of September 30, 1992, three LEAs had not submitted expenditure reports for fiscal year 1990-91 even though the expenditure reports were due on January 17, 1992. In total, for fiscal year 1990-91, the department had advanced the three LEAs approximately \$1,800. If the expenditure reports are not submitted promptly, the department cannot determine whether the LEAs spent all funds paid or should return unused funds.

The department uses the expenditure reports to identify unused funds that should be returned to the department and, in turn, to the federal government. For six school districts whose expenditure reports for fiscal year 1990-91 were dated between December 16, 1991, and May 29, 1992, the department identified approximately \$6,100 in unused funds. As of September 30, 1992, or between four to nine months after the date of the expenditure reports, the department had yet to bill these school districts for the unused funds. As a result, the LEAs are holding excess federal funds that should be returned to the federal government.

Criteria: The Code of Federal Regulations, Title 34, Section 76.722, states that a state may require an LEA to furnish reports that the state needs to carry out its responsibilities under the program. The department required that the LEAs submit an expenditure report for fiscal year 1990-91 with a due date of January 17, 1992. Additionally, the Code of Federal Regulations, Title 31, Section 205.4(a), requires that the timing and amount of cash advances be as close as administratively feasible to the actual disbursement by the recipient organization. Once the department recognizes that the recipient organization has not used its entire cash advance, the State Administrative Manual, Section 8776.2, requires agencies to prepare and send out an invoice or other type of claim document as soon as possible after the

recognition of a claim.

Recommendation: The department should ensure that all LEAs submit an expenditure report. Additionally, the department should promptly bill the LEAs for any unused funds.

Response: The CDE agrees that the time for processing expenditure reports must be shortened. The addition of two clerical support positions will speed the processing time and ensure prompt follow up on unreceived expenditure reports and billing of LEAs for unused Eisenhower program funds.

Item 8. Inadequate Procedures To Ensure That Private, Nonprofit Agencies Comply With Federal Regulations

Finding: The department does not sufficiently monitor the audit reports that private, nonprofit agencies submit to the department for the National School Lunch and School Breakfast (NSLB) programs and the State Legalization Impact Assistance Grants (SLIAG) program. We found the following specific problems:

- The department was not able to provide us with a list of private, nonprofit agencies of the NSLB programs that were required to submit an audit report for fiscal year 1990-91. Additionally, the department could not provide us with 5 of 20 audit reports we selected for review related to the NSLB programs. As a result, we could not conclude the department properly monitored the receipt of the required audit reports for the NSLB programs or that it resolved instances of noncompliance included in the audit reports. We observed a similar weakness during our financial audit for fiscal year 1990-91.
- The department did not obtain audit reports from 15 of the 44 private, nonprofit agencies participating in the SLIAG program that were required to submit audit reports in fiscal year 1990-91. The department is responsible for ensuring that subrecipients meet the federal requirement to obtain independent audits. Unless the department receives the audit reports, it cannot be sure that subrecipients participating in the SLIAG program complied with this requirement. Further, the department cannot determine if the subrecipients complied with the terms and conditions of the SLIAG program. We observed a similar weakness during our financial audit for fiscal years 1989-90 and 1990-91.

Criteria: According to the federal Office of Management and Budget, Circular A-133, state or local governments that allocate \$25,000 or more of federal financial assistance to nonprofit institutions must ensure that the nonprofit institutions obtain an independent audit that determines whether federal financial assistance was spent in accordance with applicable laws and regulations. Additionally, Circular A-133 states that audits shall usually be performed annually but not less frequently than every two years. Finally, a departmental policy directed to all school nutrition program sponsors requires that private, nonprofit agencies submit annual

audits to the department.

Recommendation: The department should sufficiently monitor the audit reports submitted by private, nonprofit agencies and ensure that they obtain independent audits at least every two years.

Response: Subitem a: The CDE concurs with this finding. The CDE was unable to provide the listing of private, nonprofit agencies having National School Lunch and Breakfast programs that were required to submit a report for 1990-91 because of a computer diskette failure. However, the CDE was able to provide the auditors with the Annual Audit Status Certification forms which showed the agencies required to submit an audit report. To ensure that a listing of private, nonprofit agencies is always available, the CDE now has a computerized listing that is backed up to multiple diskettes. The list is also maintained by the CDE's School Nutrition program staff.

The CDE was unable to provide five of the twenty audit reports requested for 1990-91 because the Office of External Audits moved just prior to the due date for submission of the audit reports and the office staff were unable to determine whether the missing audit reports were received and misplaced during the move or just not received. The CDE has built checks and controls into the newly updated database system to prevent a loss of records in the future.

Subitem b: The CDE's Amnesty Education Office has sent letters notifying three of the fifteen agencies who have not submitted 1990-91 audit reports that their audit reports are overdue and that their 1992-93 applications for State Legalization Impact Assistance Grants funding will not be approved until their audit report is received. Attachment F is a copy of the letters. The remaining twelve agencies who did not submit 1990-91 audit reports have not applied for funding in 1992-93. The Amnesty Education Office will send each of these agencies a letter requesting their audit reports.

Item 9. Inadequate Procedures To Ensure That Local Educational Agencies Comply With Federal Regulations

Finding: The department did not adequately review the audit reports submitted by the LEAs for fiscal year 1989-90. Additionally, the department did not ensure the LEAs resolved within six months all instances of noncompliance with federal laws and regulations identified in the fiscal year 1990-91 audit reports. We reviewed the department's procedures for resolving instances of noncompliance identified in audit reports submitted by the LEAs and found the following specific deficiencies:

For its review of the fiscal year 1989-90 audit reports, the department implemented new procedures for resolving instances of noncompliance. These new procedures required that the department only resolve those instances of noncompliance that were included in the audit reports for two consecutive years or that had a financial impact. Thus, among the approximately 1,400 instances of noncompliance in all audit reports, the department identified almost 250 instances of noncompliance, and the new procedures required the department to resolve those instances. However, because the department did not require the LEAs to resolve the remaining 1,150 instances of noncompliance identified in the audit reports, the department cannot be certain the LEAs complied with federal laws and regulations.

For its review of the fiscal year 1990-91 audit reports, the department implemented new procedures designed to ensure that the LEAs resolve all instances of noncompliance with federal laws and regulations. We found that 21 of 30 audit reports we reviewed identified instances in which the LEA did not comply with federal laws and regulations. For 19 of these 21, the department did not ensure that the LEAs resolved within six months the instances of noncompliance with federal laws and regulations identified in these reports. As of October 1, 1992, the department had resolved the instances of noncompliance identified in 12 of the 19 audit reports and has begun to resolve the instances of noncompliance in the remaining seven audit reports.

Criteria: According to the federal Office of Management and Budget, Circular A-128, state or local governments that allocate \$25,000 or more of federal financial assistance to a subrecipient must determine whether subrecipients spent

federal financial assistance in accordance with applicable laws and regulations. Circular A-128 requires that state or local governments ensure that appropriate corrective action is taken within six months of receipt of the audit reports.

Recommendation: The department should ensure that it requires the LEAs to correct all instances of noncompliance with federal laws and regulations identified in the audit reports within six months.

Response: Over the past two fiscal years, the CDE has sustained major reductions in its General Fund operating budget. Given the magnitude of the decrease in state funding, the CDE was forced to eliminate the LEA audit follow-up function from the External Audit Office. For 1989-90, an alternative, less costly procedure to monitor and review LEA audit exceptions was developed and implemented within the School Business Services Division.

The universe of 1989-90 audit exceptions was surveyed, and it was determined that 250 of the identified exceptions required additional follow-up. The remaining 1,150 instances of noncompliance were judged to be less significant. For example, approximately 500 of the exceptions were related to first time noncompliance attendance issues having no fiscal impact. The remaining instances of noncompliance related to such issues as weaknesses in internal control systems, deficiencies in management procedures and record keeping for equipment, and incomplete Program Cost Reports (Form J-380). Because these exceptions were determined to be less significant and because of the diminished resources available, the CDE did not follow up on their resolution.

However, as is pointed out in the finding, the CDE has implemented new procedures for the 1990-91 fiscal year audit reports, designed to ensure that the LEAs resolve all instances of noncompliance with federal laws and regulations, as well as those identified in the LEA's audit for two consecutive years. Although the CDE was unable to ensure that the LEAs resolved within six months the instances of noncompliance with federal laws and regulations identified in these reports, it is in fact, ensuring that all such exceptions identified in the 1990-91 audit reports are resolved. Despite its continued reduction of state resources, the CDE has developed an action plan to follow up on the identified audit exceptions in the 1991-92 audit reports as quickly as they are received. Thus, the 1991-92 audit exceptions should be resolved within the six month period.

Item 10. Delay in Disbursing Federal Grant Monies

Finding: The department's cash management system does not minimize the amount of time between receiving federal funds and disbursing them to subrecipients. We tested 207 claims to determine the amount of time between receipt and disbursement. We found that, for 14 claims, the State was from one to eight days late in disbursing the funds, for an average delay of 3.14 days. We observed similar weaknesses during our financial audit for fiscal years 1987-88 through 1990-91.

Criteria: The Code of Federal Regulations, Title 31, Section 205.4(a), requires that the timing and amount of cash advances be as close as administratively feasible to the actual disbursement by the recipient organization. We consider a delay of no more than five working days as administratively feasible.

Recommendation: The department should improve its compliance with federal requirements by minimizing the delay between the receipt of federal funds and the actual disbursement.

Response: This finding is incorrect insofar as it states, "The Department's cash management system does not minimize the amount of time between receiving federal funds and disbursing them to subrecipients." The CDE handles only a portion of the state's cash management system.

The finding cites 14 claims for which disbursement of the funds was late. The CDE's Accounting Office filed all fourteen claims within one business day of receiving the federal funds. It is impossible for CDE staff to improve this timeline since the State Controller's Office requires cash to be drawn prior to the submission of claims to their office. This state policy prohibits the CDE from making further progress in minimizing the time between the receipt of federal funds and the disbursement of the funds.

Perhaps the implementation of the Federal Cash Management Improvement Act of 1990 will stimulate a coordinated effort between state control agencies to examine and reconsider the policy of requiring cash to be drawn prior to submission of claims. Until that effort takes place, the CDE anticipates no further improvements in the timeliness of disbursing federal funds.

Item 11. Noncompliance With Other Federal Requirements

Findings and Criteria:

In the following instances, the department did not always comply with administrative requirements of the federal government:

- We reviewed 30 applications from the LEAs for the Drug-Free Schools and Communities--State Grants program. We found that one application was substantially incomplete, one application had no evidence of approval, three applications did not contain required progress reports, one application did not contain required program assurances, and two applications' budget summary amounts did not agree with the amount received under the grant. The United States Code, Title 20, Section 3196(a)(2)(R), requires the LEAs to submit applications and provide information and assurances that the state educational agency responsible for distributing the grant funds reasonably determines to be necessary.
- The department could not provide us with one of 30 applications we selected for review for the Eisenhower Mathematics and Science Education--State Grants program. The Code of Federal Regulations, Title 34, Section 208.22 requires the LEAs to submit applications in order to receive funds for the Eisenhower Mathematics and Science Education--State Grants program.
- Each year, the department reports to the USDOE the state's average per pupil expenditure data on the National Public Education Financial Survey form (survey). Of ten LEAs we selected for testing, the department was not able to locate documentation to support the expenditure information included in the survey for one LEA and the revenue information for another one. Additionally, the department overstated total revenues of approximately \$22 billion by approximately \$11.9 million because it made input errors when accumulating the revenue information included in the survey. The United States Code, Title 20, Section 2711(a)(2)(A), requires that the state's average per pupil expenditure data be used for the allocation of Chapter 1 funds. The USDOE requests that the department submit this information on the National Public Education Financial Survey form. Finally, good accounting practice dictates that the information included in the survey be supported and

accurate.

- The department did not review the required 50 percent of all processors participating in the Food Distribution program for fiscal year 1991-92. Instead, the department reviewed only 8 of 32, or 25 percent of all processors. However, even though only 8 processors were reviewed during fiscal year 1991-92, the department had reviewed the other 24 processors during fiscal year 1990-91 and thus had reviewed all processors within two years. The Code of Federal Regulations, Title 7, Section 250.19(b)(ii), requires the department to perform an on-site review of all processors at least once every two years with no fewer than 50 percent being reviewed each year.

Although individually these deviations may not appear to be significant, they do represent noncompliance with federal regulations, which are designed to protect the public's resources from abuse.

Recommendation: The department should improve its compliance with each of the federal requirements.

Response: Subitem a: The CDE has developed a logging system for 1992-93 Drug, Alcohol and Tobacco Education applications. The logging system will ensure that every county and school district application is appropriately date stamped, signed and reviewed for program and fiscal accuracy before the application is processed.

Subitem b: The missing Eisenhower program application for 1991-92 was from a small school district with enrollment of 640. The LEA has had several superintendents and little continuing staff since applications were collected in 1989-90. The LEA has no record or memory that the LEA applied for the funds. Although substantial effort was made to ensure that the CDE's computer records were correct before funds were disbursed, the CDE now concludes that the grant was made in error. The CDE will invoice the LEA for the funds erroneously granted.

Subitem c: The CDE annually reports expenditure information on the National Public Education Financial Survey. Prior to 1988-89, the information requested was at a relatively high level of aggregation. Beginning with the 1988-89 fiscal year, however, the federal government created a new survey report, greatly expanding the level of expenditure detail required. The most significant change for California was that the data

requested was by object within function. Since the CDE did not collect data in this manner, a new report - a matrix - was created, and 260 LEAs, representing 80 percent of California's expenditures, were asked to report their expenditures by object within function. Using this data as the basis of the expenditures reported for California's schools, the CDE reported to the U.S. Department of Education in this manner for the first time in the 1988-89 fiscal year.

Although the CDE was unable to locate documentation in its 1988-89 storage files to support the expenditure information included in the survey for one LEA and the revenue information for another LEA, the CDE is completely confident that the data reported on the survey is fully supported. Because this was the first year in which the expenditure information was reported on the basis of the newly developed matrix, unfortunately some input errors in revenue were made. The CDE recognizes that, although the revenue input error is relatively insignificant and the revenue information is not used by the U.S. Department of Education, good accounting practice does dictate that the information included in the survey be accurate.

Since 1988-89, the CDE has prepared and filed survey reports for 1989-90 and 1990-91 using the matrix as the basis for the reports. The supporting data and procedures for these reports are well documented. Furthermore, for the 1990-91 fiscal year report, the CDE received an acknowledgement from the U.S. Department of Education of an error-free report. The CDE is confident that its procedures and supporting documentation for the survey are complete, accurate, and consistent with good accounting practices.

Subitem d: The CDE concurs with his finding. The food processor review function has been moved to another unit within the CDE's Child Nutrition and Food Distribution Division. The new unit is adequately staffed to conduct the required reviews of processors within the time frame required by federal regulations.

DATE: October 26, 1992

TO: Robert Ryan, Administrator
Healthy Kids Healthy California Office

FROM: *PL* Peggy Lumpkin, Coordinator

SUBJECT: Income/Expense Summary: Comprehensive Health Conferences

INCOME:	Enhancement Grant	\$109,791
	Registration (North)	15,480
	Registration (South)	<u>6,930</u>
	Total	\$132,201

EXPENSES:

1000	Certificated Salaries	\$ 16,750
2000	Classified Salaries	3,100
3000	Benefits	3,852
4000	Supplies (Includes photography, shipping, AV rental, conference support materials, supplies, postage, & printing)	7,595
5000	Services (Includes intern, media consultant, presenter fees, health fairs, hotel & travel for staff & presenters, tax, additional food charges, cancellation fees)	37,323
7000	Indirect costs	<u>3,601</u>

Total		\$132,201
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CALIFORNIA DEPARTMENT OF EDUCATION

721 Capitol Mall; P.O. Box 944272

Sacramento, CA 94244-2720

Attachment B

Bill Honig

State Superintendent

of Public Instruction

November 16, 1992

TO: County and District Superintendent of Schools

FROM: Sally Mentor, *SJM* Deputy Superintendent
Curriculum and Instructional Leadership Branch

SUBJECT: DRUG-FREE SCHOOLS AND COMMUNITIES ACT OF 1986
GRANT AWARD FOR 1992-93
P.L. 101-647

This is to notify you that your Drug-Free Schools application is in order and approved for fiscal year 1992-93. The portion of your Drug, Alcohol, and Tobacco Education (DATE) application that addresses the Drug-Free Schools and Communities program meets the requirements of the federal statute.

Your county/district was notified in May 1992 of an estimated grant amount. That amount has not been changed and, upon receipt of this notice, the county, district, or consortium is authorized to expend funds.

PLEASE NOTE: Beginning in 1992-93, Drug-Free Schools and Communities funds will be paid in three installments of 60 percent in November, 20 percent in January, and 20 percent in June. The first installment will not be paid until the 1991-92 DFSC Annual Report has been received.

Your county treasurer will receive your first installment (60 percent) of your 1992-93 entitlement in approximately eight weeks, if you submitted your 1991-92 DFSC Annual Report. The funds will be entered into your account. If you are participating in a consortium, you are reminded to create a "memorandum of understanding" with the consortium lead agency to transfer funds in accordance with the Drug-Free Schools and Communities Act.

Federal statutes require that you notify the California Department of Education if any changes are made during the funding period that alter submitted program plans or budgets.

For further information, contact Sally Carstens at (916) 657-4912 or Kathy Yeates at (916) 657-5085, Healthy Kids Healthy California Office.

cc: County/District Superintendent
Business Office

Instructions for Completing 1991-92 Program Resources

Program resources are the funds you have available in each program for the 1991-92 fiscal year. Dates of this funding cycle are:

- TUPE: July 1, 1991 to June 30, 1992
- CADPE: October 1, 1991 to June 30, 1992 (9 months)
- DFSC: October 1, 1991 to September 30, 1992

Use the chart on the following page for calculating your program resources for the 1991-92 funding cycle.

Carryover Provisions

- TUPE: - Carryover for expenditure during the next fiscal year.
- CADPE: - No carryover is allowed.
- DFSC: - A maximum of 25% of the annual appropriation.

1991-92 Program Resources

Florida Department of Education

Office of Criminal Justice Planning

Attachment C

Purpose: This page is to calculate total resources for 1991-92 for each program (A consortium should use the sum of entitlements/grant awards for all consortium members.)

					Agency	
					CDS Code	
Program Resources						
1. 1990-91 total entitlements/grant award	TYPE	DFSC	CADPE 46	CADPE HTS	Other Resources	TOTAL
2. 1990-91 total expenditures						
3. Resources to be carried over to 1991-92						
4. 1991-92 entitlements/grant award						
5. Total 1991-92 resources (#3 + #4)						

Counties may use this column to list other resources available for the comprehensive prevention program.

** DFSC carryover may not exceed 25% of #1.

1992-93 Program Resources (continued)

Florida Department of Education

Office of Criminal Justice Planning

Consortium Members (continued)	Dollar Amount of Award									
	CDS Code				TUPE	DFSC	CADPE	CADPE	HRS	
						\$	\$	\$	\$	\$
						\$	\$	\$	\$	\$
						\$	\$	\$	\$	\$
						\$	\$	\$	\$	\$
						\$	\$	\$	\$	\$
						\$	\$	\$	\$	\$
						\$	\$	\$	\$	\$
						\$	\$	\$	\$	\$
						\$	\$	\$	\$	\$
						\$	\$	\$	\$	\$
1. Total 1992-93 (Total award amount of all contributing members)										
						\$	\$	\$	\$	\$
2. Total 1992-93 administrative entitlement (For county offices contributions of administration)										
						\$	\$	N/A	N/A	N/A
3. Carryover from 1990-91 grant award (For consortium give total carryover for all members)										
						\$	\$	N/A	N/A	N/A
4. Carryover from 1991-92 grant award (For consortium give total carryover for all members)										
						\$	\$	N/A	N/A	N/A
5. Total 1992-93 resources (Sum of #1 through #4)										
						\$	\$	\$	\$	\$
<p>* Not to exceed 25% of 1991-92 DFSC grant award amount.</p>										
<p>County DATE: Application 1992</p>										

Attachment D

Instructions for Completing Program Resources Page

For the purpose of this application process, the term *consortium* may be defined as follows for each program:

For TUPE and DFSC:

A partnership of districts or of a county office of education and one or more districts.

Please note: If the consortium for TUPE and DFSC includes only school districts, the plan may be reviewed at the county level. However, if the county office of education is part of the consortium, the plan must be reviewed by the California Department of Education.

For CADPE:

A consortium exists when a county office of education provides direct service to one or more districts instead of an allocation of funds. The district or districts must agree to the direct services instead of the allocation of funds. The county office of education usually acts as the lead agency but not necessarily so.

Directions for filling out the "Program Resources Page":

For TUPE and DFSC:

Individual applicants should fill out the first line on p. 28 and proceed to number one on p. 29.

For consortia, the lead agency must be identified on the first line with the members of the consortium listed below. Include the amounts each consortium member is contributing to the overall consortium budget.

For CADPE:

Write in the county/office or lead agency on the first line. List the amounts of any district allocations below.

Carryover Provisions

- TUPE - Carryover of all unexpended 1990-91 and 1991-92 monies allowable. (All 1989-90 money included in last year's DATE application should be spent by June 30, 1992.)
- DFSC - A maximum of 25% of the 1991-92 entitlement amount, not including any previous year carryover. (All 1990-91 money included in the last year's DATE application should be spent by September 30, 1992.)
- CADPE - No carryover is allowed.

Program

Drug-Free Schools and Communities Act (DFSC)

Program Goal

To establish drug abuse prevention programs, including early intervention, rehabilitation, and referral, in elementary and secondary schools

Key Strategies

- Drug and alcohol curricula and other instructional materials containing a clear, no use message are used in the classroom.
- To develop parent and community involvement and education programs.
- Inservice and preservice programs are offered to school staff and other persons involved in implementation of the DFSC program.
- Counseling, intervention, and referral services are available to students and their immediate families.
- Anti-drug and alcohol policies and procedures for enforcing those policies have been established.
- Equitable DFSC services are provided for students in private nonprofit schools.
- The LEA uses DFSC funds to supplement existing programs.
- The LEA keeps adequate records to submit required reports.

Program: Drug-Free Schools and Communities (DFSC)

Program Goals: To establish drug abuse prevention education programs including early intervention, rehabilitation, and referral in elementary and secondary schools

Key Strategy: Drug and alcohol curricula and other instructional materials containing a clear, no-use message are being used in the classroom.

Compliance item/test	Review level/ How to test for compliance	What to look for	Comments
<p>DFSC.1 The LEA has implemented integrated, comprehensive drug and alcohol prevention curricula and instructional programs into the classroom.</p> <p><i>Primary Test</i></p> <p>DFSC.1a The LEA has established, implemented, or augmented mandatory, age-appropriate, developmentally based drug education and alcohol abuse prevention curricula for grades K-12.</p> <p>(20 USC 3196(a)(2)(G), 3224a(a)(1))</p>	<p>District</p> <ul style="list-style-type: none"> - Review DATE application, "Curriculum" component. <p>District or Site</p> <ul style="list-style-type: none"> - Review lesson plans for prevention education; or - Observe curriculum implementation in the classroom. <p>Site</p> <ul style="list-style-type: none"> - Review sample of curricula being used in the classroom. 	<ul style="list-style-type: none"> - Evidence that curricula exist and are being implemented at each grade level. 	
<p>DFSC.1b Materials and curricula convey that the use of illicit drugs and the unlawful possession and use of alcohol is wrong and harmful.</p> <p>(20 USC 3224, 3224a(a)(2))</p>		<ul style="list-style-type: none"> - All materials purchased with DFSC funds carry a clear no-use message. 	
Key Strategy: Develop parent and community involvement and education programs.			
<p>DFSC.2 Parents and the community are actively involved in the DFSC program.</p> <p><i>Primary Tests</i></p> <p>DFSC.2a Community education programs and other activities are provided to involve parents and communities in the fight against drug and alcohol abuse.</p> <p>(20 USC 3195(a)(10))</p>	<p>District</p> <ul style="list-style-type: none"> - Review DATE application, "Community Involvement" component. 	<ul style="list-style-type: none"> - Evidence that the LEA is working with parent and community groups not only to help educate but also actively involve them in the implementation of the DFSC program. 	

Compliance item/test	Review level/ How to test for compliance	What to look for	Comments
DFSC.2a (continued)	<ul style="list-style-type: none"> - Interview DFSC coordinator. ASK: - How is the district coordinating with community-based organizations in drug and alcohol abuse education, prevention, treatment, and rehabilitation? 		
DFSC.2b Family drug abuse prevention programs are offered that educate parents about the symptoms and effects of drug use. (20 USC 3195(a)(3))	<p>District</p> <ul style="list-style-type: none"> - Review DATE application, "Parent Involvement" component. - Interview DATE/DFSC coordinator. <p>ASK:</p> <ul style="list-style-type: none"> - What has been your most effective means of reaching parents and educating them on issues surrounding drug and alcohol use (i.e., awareness, symptoms, parenting and communication skills)? 	<ul style="list-style-type: none"> - Parents are offered a variety of opportunities to become actively involved in the DFSC program. 	
DFSC.2c Public education programs on drugs and alcohol abuse are provided, such as programs utilizing professionals and former drug and alcohol abusers. (20 USC 3195(a)(11))	<p>District</p> <ul style="list-style-type: none"> - Review paperwork regarding community-based efforts, referral forms to community organizations, fliers, brochures, lists of services available, and public service announcements. 	<ul style="list-style-type: none"> - More than just school-related agencies are involved in the DFSC program. 	
Key Strategy: <i>In-service and preservice programs are offered to school staff and other persons involved in implementation of the DFSC program.</i>			
DFSC.3 In-service and preservice trainings are offered to school personnel, athletic directors, public service personnel, law enforcement officials, judicial officials, and community leaders. (20 USC 3195(a)(8))	<p>District</p> <ul style="list-style-type: none"> - Review DATE application, "Staff In-Service" component. - Review sign-in sheets for trainings and workshops. - Interview DATE/DFSC coordinator and site administrators <p>ASK:</p> <ul style="list-style-type: none"> - Are drug and alcohol inservice programs part of the LEA's staff development plans? 	<ul style="list-style-type: none"> - Evidence that the activities proposed in the plan to achieve this requirement have been carried out. 	

Compliance item/test	Review level/ How to test for compliance	What to look for	Comments
DFSC.3 (continued)	<ul style="list-style-type: none"> - What opportunities for professional growth have been offered to staff in the area of drug and alcohol prevention? 		
Key Strategy: <i>Counseling, intervention, and referral services are available to students and their immediate families.</i>			
<p>DFSC.4 Drug abuse prevention and intervention counselling programs are provided for children of all ages and for their parents and immediate families.</p> <p><i>Primary Tests</i></p> <p>DFSC.4a The LEA has employed or has access to qualified professionals or other trained counselors, including law enforcement officers and peer counselors, to carry out drug prevention and intervention activities.</p> <p>(20 USC 3195(e)(2)(e)(c), 3195(e)(4))</p>	<p>District</p> <ul style="list-style-type: none"> - Review DATE application, "Intervention" component. <p>Site</p> <ul style="list-style-type: none"> - Interview counselors and other qualified professionals. <p>ASK:</p> <ul style="list-style-type: none"> - What is your role in the DFSC/DATE program? - How many students, parents, or families do you see per week/day? <p>District</p> <ul style="list-style-type: none"> - Review written procedures for referral. - Review list of guidance and counseling programs available. <p>District or Site</p> <ul style="list-style-type: none"> - Review student study team handbook or procedures. 	<ul style="list-style-type: none"> - Evidence that the activities proposed in the plan to achieve this requirement have been or will be carried out. 	
<p>DFSC.4b Procedures exist for the referral of students, including dropouts and abusers of drugs and alcohol, to intervention and treatment programs and for referral of parents and immediate families of drug and alcohol abusers to guidance counseling programs.</p> <p>(20 USC 3195(e)(5-7))</p> <p>DFSC.4c The LEA has established programs in primary prevention and early intervention, such as the interdisciplinary school-team approach.</p> <p>(20 USC 3195(e)(9))</p>			

Key Strategy: *Anti-drug and alcohol policies and procedures for enforcing those have been established.*

Compliance item/test	Review level/ How to test for compliance	What to look for	Comments
<p>DFSC.5 The LEA has implemented school board policies related to drug prevention, intervention, enforcement, and discipline.</p> <p><i>Primary Tests</i></p> <p>DFSC.5a Policy includes standards of conduct that are applicable to students and employees in all the LEA's schools and clearly prohibits the unlawful possession, use, or distribution of illicit drugs and alcohol by students and employees on school premises or as part of school activities. (20 USC 3224a(a)(3))</p>	<p>District</p> <ul style="list-style-type: none"> - Review DATE application, "School Policy" component. - Review district policy. - Interview DATE/DFSC coordinator. <p>ASK:</p> <ul style="list-style-type: none"> - Has the district carried out these sanctions when the policy has been violated? <p>SITE</p> <ul style="list-style-type: none"> - Interview sample of staff members. <p>ASK:</p> <ul style="list-style-type: none"> - Are you familiar with the district's drug and alcohol policy? - How were you informed of this policy? - Are you aware of the sanctions that support the policy? <p>District:</p> <ul style="list-style-type: none"> - Review student and staff handbooks, notices, or contracts to determine whether they clearly explain the policy, standards, and sanctions. - Review the type of materials sent to parents explaining the policy, standards, and procedures. 	<ul style="list-style-type: none"> - Evidence that the activities proposed in the plan to achieve this requirement have been, or will be, carried out. 	
<p>DFSC.5b A process exists to notify students, parents, and employees of the LEA's standards of conduct, up to and including expulsion or termination of employment and referral for prosecution for those who violate the policy and standards of conduct. (20 USC 3224a(a)(4))</p>			

Key Strategy: *Equitable DFSC services are provided for students in private nonprofit schools.*

Compliance item/test	Review level/ How to test for compliance	What to look for	Comments
<p>DFSC.6 Each LEA plans and implements programs which ensure the equitable participation of private school students and teachers.</p> <p><u>Primary Tests</u></p> <p>DFSC.6a All approved private nonprofit schools within the district's boundaries have been contacted annually to determine whether they desire to participate in the DFSC program. (20 USC 3223(a) and (b); 34 CFR 76.652)</p>	<p>District</p> <ul style="list-style-type: none"> - Review DATE application, "Planning and Review Process" component. <p>Site</p> <ul style="list-style-type: none"> - Contact a sample of private nonprofit schools to verify their participation or desire not to participate in the DFSC program. 	<ul style="list-style-type: none"> - Evidence that all private nonprofit school's have the opportunity to participate in the DFSC program. 	
<p>DFSC.6b The LEA has consulted with private nonprofit school officials regarding the development and implementation of the DFSC program to meet the needs of private school students and teachers. (20 USC 3223(a); 34 CFR 76.652)</p>	<p>District</p> <ul style="list-style-type: none"> - Examine records of private school consultation. - Review DATE application "Advisory Committee Roster" component. 	<ul style="list-style-type: none"> - Evidence of private school representation in DFSC planning meetings. 	
<p>DFSC.6c If the needs of private school children and teachers are different from the needs of children and teachers in public schools, then private school children and teachers receive different DFSC benefits that reflect those needs (20 USC 3223(a) and (b); 34 CFR 76.652(a), 76.653, 76.654)</p>	<p>District</p> <ul style="list-style-type: none"> - Examine records of private school consultation. - Review DATE Application, "Planning and Review Process" component 	<ul style="list-style-type: none"> - Evidence that the needs of the private schools were adequately assessed. 	

Compliance item/test	Review level/ How to test for compliance	What to look for	Comments
<p>DFSC.6d The LEA does not allocate funds directly to private schools but maintains continuing administrative direction and control of funds and property that benefit private school children and teachers. (34 CFR 76.651(a)(3), 76.661)</p>	<p>District</p> <ul style="list-style-type: none"> - Review any type of document or agreement for services or materials loaned to the private schools. - Review purchase orders. 	<ul style="list-style-type: none"> - Evidence that materials or services purchased to serve the private schools were administered through the LEA directly. 	
<p>DFSC.6e The LEA spends the same average amount per person of DFSC funds on private school teachers and children as it spends on DFSC benefits for public school children and teachers. (34 CFR 76.655)</p>	<p>District</p> <ul style="list-style-type: none"> - Review budget. - Review service agreement. 	<ul style="list-style-type: none"> - Evidence that funds were distributed equitably between the public and private schools, based on the needs of each and the cost to meet those needs. 	
<p>NOTE: If the average cost of meeting those needs differ, then the LEA may spend different amounts to meet those different needs.</p>			
<p>Key Strategy: The LEA uses DFSC funds to supplement existing programs.</p>			
<p>DFSC.7 Staff, contracts, materials, supplies, and equipment funded with DFSC funds supplement existing programs.</p>			
<p><u>Primary Tests</u> DFSC.7a Staff, contracts, materials, supplies, and equipment funded with DFSC funds supplement but do not supplant existing programs. (20 USC 3196(a)(1))</p>	<p>District</p> <ul style="list-style-type: none"> - Review DATE application, "Budget Summary" and "Budget Line Items." - Compare previous year's DFSC budget to current budget. 	<ul style="list-style-type: none"> - Evidence that increases or changes in the DFSC budget reflect similar changes in the DFSC program. 	
<p>DFSC.7b When positions are multifunded, there is written evidence that the duties performed and the proportion of time spent for those duties are appropriate to the funding sources used. (20 USC 3196(a)(1))</p>	<p>District and/or Site</p> <ul style="list-style-type: none"> - Determine funding sources and amount of each. - Review time accounting forms, work schedules, task analysis, and so forth. 	<ul style="list-style-type: none"> - Supplementary services can be separately identified and are proportionately charged to the multifunded activity. 	

Compliance item/test	Review level/ How to test for compliance	What to look for	Comments
<p>DFSC.7b (continued)</p> <p>DFSC.7c Equipment purchased with DFSC funds is used exclusively for activities authorized by DFSC guidelines. (20 USC 3196(a)(1))</p>	<ul style="list-style-type: none"> - Interview multifunded staff. <p>ASK:</p> <ul style="list-style-type: none"> - Which funding sources support your position? - How is your time accounting recorded? <p>Site</p> <ul style="list-style-type: none"> - Review a sample of purchase orders. - Observe the use of such purchases. 		
<p>Key Strategy: The LEA keeps adequate records to submit required reports.</p>			
<p>DFSC.8 The LEA keeps such records and provides such information to the Department of Education as may reasonably be required for fiscal audit and program evaluation. (20 USC 3196(a)(R)(b))</p>	<p>District</p> <ul style="list-style-type: none"> - Review DATE application, "Evaluation" component. - Review records, including purchase orders, invoices, contracts, and timesheets. - Review surveys, implementation documentation, referral forms, sign-in sheets, logs, and so on. - Review the "DFSC End of Year Progress and Fiscal Report," as submitted to CDE. 	<ul style="list-style-type: none"> - Evidence that sufficient records are kept. - Evidence that reports were completed. 	



November 6, 1992

Mr. George D. Lopez
San Diego Co. SER
2027 Mission Avenue, #E
Oceanside, CA 92054

Dear Mr. Lopez:

We have received approval to allocate \$8 million for FY 1992-93 that was accumulated from unspent funds of prior years. Efforts also continue to obtain additional federal funds; however, there are no assurances that California will make SLIAG monies available for education.

Your application to be funded as a SLIAG education provider for 1992-93 was received, and the amount that would be available to your agency is \$20,643. Our records reflect, however, that your audits of the SLIAG program for FY 1990-91 have not yet been submitted. An acceptable audit for each program year is required. Your grant application cannot be approved at this time; however, the funds will be reserved and your application retained until November 30, 1992, to allow time to receive the audits(s). If your audit is not received by this date, your application will expire, and the funds will be allocated to other agencies. Failure to submit an audit, as required, could result in your agency being billed for all of the SLIAG funds received for that year.

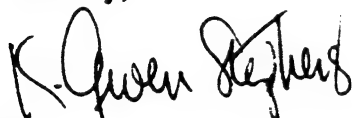
For 1992-93 grants, all of the regulations and conditions of prior years remain in effect; in addition the following stipulations also apply:

1. Reimbursement will be based on actual costs or an assigned hourly rate, whichever is less. Rates will be assigned using as a base rates approved for FY 1990-91; however, the combined rates cannot exceed an average of \$5.50 statewide. Because there are fewer participants than in FY 1990-91, if you had been approved a rate that was more than \$5 an hour, it will be less this year. As soon as all grant awards are finalized, agencies will be advised of the approved hourly rate for FY 1992-93. Regardless of the rate which may be assigned, reimbursements cannot exceed either the average of \$500 per student or the grant award.
2. No expenditures will be reimbursed for equipment purchases or capital outlay expenditures unless written approval is obtained from CDE in advance of the expenditure.

3. Individuals still needing their "Certificate of Satisfactory Pursuit" must be given immediate priority of service.
4. Services provided to a student after the expiration of their eligibility (5 years after applying for amnesty and lawful permanent residency) are not reimbursable.
5. Community-based organizations that receive \$25,000 or more federal funds, from any combination of sources during the year must submit an audit report from an independent auditor. For any agency whose grant award is \$25,000 or more, ten percent of your grant award will be set aside and withheld until the required audit reports are received and approved. The FY 1991-92 audit report is to be submitted prior to December 31, 1992. If it has not been received by March 15, 1993, reimbursement payments will be suspended until it is received and deemed acceptable. The 1992-93 audit report is due within 90 days after the end of the agency's fiscal year. Agencies failing to submit an acceptable audit report of FY 1992-93 by March 15, 1994, will forfeit the 10% withheld from the grant. The cost for the audit is a reimbursable expense from your grant for the year being audited.
6. Costs incurred beyond June 30, 1993 or beyond your grant amount will not be reimbursable.

Please submit the audit(s) as soon as possible. If you choose to withdraw your grant application, please advise us by fax: (916) 327-5710, as well as by mail. If you have questions, please call Bruce Bird at (916) 324-3839.

Sincerely,



K. Gwen Stephens, Manager
Amnesty Education Office

KGS:eh



CALIFORNIA DEPARTMENT OF EDUCATION

721 Capitol Mall; P.O. Box 944272

Sacramento, CA 94244-2720

Attachment F

Bill Honig

State Superintendent

of Public Instruction

November 6, 1992

Mr. Ricardo Alva
Mission Language/Vocational School
2929 19th Street
San Francisco, CA 94110

Dear Mr. Alva:

We have received approval to allocate \$8 million for FY 1992-93 that was accumulated from unspent funds of prior years. Efforts also continue to obtain additional federal funds; however, there are no assurances that California will make SLIAG monies available for education.

Your application to be funded as a SLIAG education provider for 1992-93 was received, and the amount that would be available to your agency is \$14,337. Our records reflect, however, that your audits of the SLIAG program for FY(s) 1989-90 and 1990-91 have not yet been submitted. An acceptable audit for each program year is required. Your grant application cannot be approved at this time; however, the funds will be reserved and your application retained until November 30, 1992, to allow time to receive the audits(s). If your audit is not received by this date, your application will expire, and the funds will be allocated to other agencies. Failure to submit an audit, as required, could result in your agency being billed for all of the SLIAG funds received for that year.

For 1992-93 grants, all of the regulations and conditions of prior years remain in effect; in addition the following stipulations also apply:

1. Reimbursement will be based on actual costs or an assigned hourly rate, whichever is less. Rates will be assigned using as a base rates approved for FY 1990-91; however, the combined rates cannot exceed an average of \$5.50 statewide. Because there are fewer participants than in FY 1990-91, if you had been approved a rate that was more than \$5 an hour, it will be less this year. As soon as all grant awards are finalized, agencies will be advised of the approved hourly rate for FY 1992-93. Regardless of the rate which may be assigned, reimbursements cannot exceed either the average of \$500 per student or the grant award.
2. No expenditures will be reimbursed for equipment purchases or capital outlay expenditures unless written approval is obtained from CDE in advance of the expenditure.

3. Individuals still needing their "Certificate of Satisfactory Pursuit" must be given immediate priority of service.
4. Services provided to a student after the expiration of their eligibility (5 years after applying for amnesty and lawful permanent residency) are not reimbursable.
5. Community-based organizations that receive \$25,000 or more federal funds, from any combination of sources during the year must submit an audit report from an independent auditor. For any agency whose grant award is \$25,000 or more, ten percent of your grant award will be set aside and withheld until the required audit reports are received and approved. The FY 1991-92 audit report is to be submitted prior to December 31, 1992. If it has not been received by March 15, 1993, reimbursement payments will be suspended until it is received and deemed acceptable. The 1992-93 audit report is due within 90 days after the end of the agency's fiscal year. Agencies failing to submit an acceptable audit report of FY 1992-93 by March 15, 1994, will forfeit the 10% withheld from the grant. The cost for the audit is a reimbursable expense from your grant for the year being audited.
6. Costs incurred beyond June 30, 1993 or beyond your grant amount will not be reimbursable.

Please submit the audit(s) as soon as possible. If you choose to withdraw your grant application, please advise us by fax: (916) 327-5710, as well as by mail. If you have questions, please call Bruce Bird at (916) 324-3839.

Sincerely,



K. Gwen Stephens, Manager
Amnesty Education Office

KGS:eh



November 6, 1992

Mr. George D. Lopez
San Diego Co. SER
2027 Mission Avenue, #E
Oceanside, CA 92054

Dear Mr. Lopez:

We have received approval to allocate \$8 million for FY 1992-93 that was accumulated from unspent funds of prior years. Efforts also continue to obtain additional federal funds; however, there are no assurances that California will make SLIAG monies available for education.

Your application to be funded as a SLIAG education provider for 1992-93 was received, and the amount that would be available to your agency is \$20,643. Our records reflect, however, that your audits of the SLIAG program for FY 1990-91 have not yet been submitted. An acceptable audit for each program year is required. Your grant application cannot be approved at this time; however, the funds will be reserved and your application retained until November 30, 1992, to allow time to receive the audits(s). If your audit is not received by this date, your application will expire, and the funds will be allocated to other agencies. Failure to submit an audit, as required, could result in your agency being billed for all of the SLIAG funds received for that year.

For 1992-93 grants, all of the regulations and conditions of prior years remain in effect; in addition the following stipulations also apply:

1. Reimbursement will be based on actual costs or an assigned hourly rate, whichever is less. Rates will be assigned using as a base rates approved for FY 1990-91; however, the combined rates cannot exceed an average of \$5.50 statewide. Because there are fewer participants than in FY 1990-91, if you had been approved a rate that was more than \$5 an hour, it will be less this year. As soon as all grant awards are finalized, agencies will be advised of the approved hourly rate for FY 1992-93. Regardless of the rate which may be assigned, reimbursements cannot exceed either the average of \$500 per student or the grant award.
2. No expenditures will be reimbursed for equipment purchases or capital outlay expenditures unless written approval is obtained from CDE in advance of the expenditure.

3. Individuals still needing their "Certificate of Satisfactory Pursuit" must be given immediate priority of service.
4. Services provided to a student after the expiration of their eligibility (5 years after applying for amnesty and lawful permanent residency) are not reimbursable.
5. Community-based organizations that receive \$25,000 or more federal funds, from any combination of sources during the year must submit an audit report from an independent auditor. For any agency whose grant award is \$25,000 or more, ten percent of your grant award will be set aside and withheld until the required audit reports are received and approved. The FY 1991-92 audit report is to be submitted prior to December 31, 1992. If it has not been received by March 15, 1993, reimbursement payments will be suspended until it is received and deemed acceptable. The 1992-93 audit report is due within 90 days after the end of the agency's fiscal year. Agencies failing to submit an acceptable audit report of FY 1992-93 by March 15, 1994, will forfeit the 10% withheld from the grant. The cost for the audit is a reimbursable expense from your grant for the year being audited.
6. Costs incurred beyond June 30, 1993 or beyond your grant amount will not be reimbursable.

Please submit the audit(s) as soon as possible. If you choose to withdraw your grant application, please advise us by fax: (916) 327-5710, as well as mail. If you have questions, please call Bruce Bird at (916) 324-3839.

Sincerely,



K. Gwen Stephens, Manager
Amnesty Education Office

KGS:eh

**CALIFORNIA DEPARTMENT OF EDUCATION**

721 Capitol Mall; P.O. Box 944272

Sacramento, CA 94244-2720

Bill Honig

State Superintendent

of Public Instruction

November 6, 1992

Mr. Jorge Peralta
Progress School
1870 N. Hillhurst Avenue, #B
Los Angeles, CA 90027

Dear Mr. Peralta:

We have received approval to allocate \$8 million for FY 1992-93 that was accumulated from unspent funds of prior years. Efforts also continue to obtain additional federal funds; however, there are no assurances that California will make SLIAG monies available for education.

Your application to be funded as a SLIAG education provider for 1992-93 was received, and the amount that would be available to your agency is \$15,818. Our records reflect, however, that your audits of the SLIAG program for FY 1990-91 have not yet been submitted. An acceptable audit for each program year is required. Your grant application cannot be approved at this time; however, the funds will be reserved and your application retained until November 30, 1992, to allow time to receive the audits(s). If your audit is not received by this date, your application will expire, and the funds will be allocated to other agencies. Failure to submit an audit, as required, could result in your agency being billed for all of the SLIAG funds received for that year.

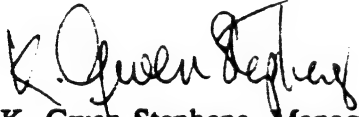
For 1992-93 grants, all of the regulations and conditions of prior years remain in effect; in addition the following stipulations also apply:

1. Reimbursement will be based on actual costs or an assigned hourly rate, whichever is less. Rates will be assigned using as a base rates approved for FY 1990-91; however, the combined rates cannot exceed an average of \$5.50 statewide. Because there are fewer participants than in FY 1990-91, if you had been approved a rate that was more than \$5 an hour, it will be less this year. As soon as all grant awards are finalized, agencies will be advised of the approved hourly rate for FY 1992-93. Regardless of the rate which may be assigned, reimbursements cannot exceed either the average of \$500 per student or the grant award.
2. No expenditures will be reimbursed for equipment purchases or capital outlay expenditures unless written approval is obtained from CDE in advance of the expenditure.

3. Individuals still needing their "Certificate of Satisfactory Pursuit" must be given immediate priority of service.
4. Services provided to a student after the expiration of their eligibility (5 years after applying for amnesty and lawful permanent residency) are not reimbursable.
5. Community-based organizations that receive \$25,000 or more federal funds, from any combination of sources during the year must submit an audit report from an independent auditor. For any agency whose grant award is \$25,000 or more, ten percent of your grant award will be set aside and withheld until the required audit reports are received and approved. The FY 1991-92 audit report is to be submitted prior to December 31, 1992. If it has not been received by March 15, 1993, reimbursement payments will be suspended until it is received and deemed acceptable. The 1992-93 audit report is due within 90 days after the end of the agency's fiscal year. Agencies failing to submit an acceptable audit report of FY 1992-93 by March 15, 1994, will forfeit the 10% withheld from the grant. The cost for the audit is a reimbursable expense from your grant for the year being audited.
6. Costs incurred beyond June 30, 1993 or beyond your grant amount will not be reimbursable.

Please submit the audit(s) as soon as possible. If you choose to withdraw your grant application, please advise us by fax: (916) 327-5710, as well as by mail. If you have questions, please call Bruce Bird at (916) 324-3839.

Sincerely,


K. Gwen Stephens, Manager
Amnesty Education Office

KGS:eh



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

October 30, 1992

Management Letter X-510

Russell Gould, Secretary
Health and Welfare Agency
1600 Ninth Street, Room 460
Sacramento, California 95814

Dear Mr. Gould:

As part of our comprehensive financial and compliance audit of the State of California for the fiscal year ended June 30, 1992, we assessed the Employment Development Department's (department) administration of federal programs. We noted certain deviations from federal regulations, which are designed to protect the public's resources. The following comments and recommendations are intended to improve the administration of federal programs.

On October 28, 1992, my staff met with Bob Hotchkiss, Martha Lopez, Mark Lowder, and other department staff to discuss the weaknesses we found in the department's administration of the following federal programs: the Unemployment Insurance program (Federal Catalog No. 17.225); the Employment Service program (Federal Catalog No. 17.207); the Job Training Partnership Act program (Federal Catalog No. 17.250); the Employment and Training Assistance - Dislocated Workers program (Federal Catalog No. 17.246); the State Legalization Impact Assistance Grant program (Federal Catalog No. 93.025), and the Disaster Unemployment Assistance program, which is part of the Disaster Assistance program (Federal Catalog No. 83.516).

During the meeting, my staff also discussed the recommendations to resolve these weaknesses. The following is a summary of the items discussed during the meeting.

Item 1. **Deficient Controls in the Unemployment Benefit Payment System**

Finding: The department's control over its automated system for processing unemployment benefit payments has deficiencies. During our testing of benefit payments under the Unemployment Insurance program, we found that for 2 of the 45 items we tested, the

claimants were paid in excess of the benefit amount allowable under the program guidelines. The 45 items we tested reflect only a small portion of the 18.6 million unemployment benefit payments to claimants that totaled more than \$4.6 billion for fiscal year 1991-92. Thus, although the amount of the individual errors we found are relatively small, the total amount of undetected errors could be significant. We found the following incidents of deficient controls in the automated benefit payment system:

The department overpaid a claimant more than \$1,700 in regular and emergency unemployment compensation. The overpayment occurred because duplicate wages were recorded in the claimant's account on the department's base wage file. This file determines the amount of weekly benefits payable to unemployment insurance claimants. The department discovered the duplicate wages recorded in the base wage file and stripped the duplicate wages from the system. However, the department's automated benefit payment system did not generate a "recomputation flag" to notify appropriate units to recompute any benefit awards to claimants affected by the change in the base wage file. As a result, this overpayment was not identified until we brought it to the department's attention. The department is currently unable to estimate how many similar errors may have occurred. However, the department has initiated corrective action to ensure that changes to the base wage file will generate flags in the system to notify the appropriate units when to recompute benefit awards to claimants.

The department overpaid a claimant \$76 in regular unemployment compensation. The overpayment occurred when the department issued a replacement check to the claimant. The technical staff in the Automation Administration Division (AAD) concluded that the overpayment was caused by an override feature in the benefit payment subsystem. When

a replacement check is issued, the override feature will automatically bypass edit functions that prevent payments processed through the automated benefit payment system from exceeding the allowable benefit award. This error was compounded when the automated benefit payment system did not recognize the negative balance generated by the overpayment. The department did not correct the overpayment until we notified it of the error. The overpayment occurred in the department's old automated benefit payment system, and the department's staff is aware that similar errors have occurred. According to the technical staff in the AAD, the department's new Single Client Data Base system will recognize negative balances recorded in the on-line system, and it also limits the automatic override feature when replacement checks are issued.

Criteria: The California Government Code, Section 13402, requires agencies to maintain an effective system of internal accounting and administrative control. In addition, Section 13403 requires that the system of internal control include a system of recordkeeping procedures to provide effective accounting control over revenues and expenditures.

Recommendation: The department should continue to implement corrective action to ensure that all benefit awards to claimants are recomputed when changes to the base wage file are made. In addition, the department should put tight limits on the override capability in the automated benefit payment system. Finally, the department should determine the number of instances where the controls discussed above may have allowed additional overpayments. The department should then collect the overpayments.

Item 2. **Insufficient Monitoring of Subrecipients' Cash Balances**

Finding: The department does not have documentation to show it properly monitored the cash balances of secondary recipients of the Job Training Partnership Act (JTPA) program. Although the department requires its subrecipients to submit monthly status of cash reports, we identified the following weaknesses:

The procedures of the Fiscal Programs Division (FPD) do not require that the monthly status of cash reports be reviewed for accuracy. As a result, the section of the report that shows whether or not the subrecipient has excess cash may be incorrect and the problem may go undetected. For example, for 2 of the 24 reports we reviewed, the subrecipients prepared the report incorrectly. In one of the two reports, the amount was misstated by nearly \$50,000. The department was unable to provide evidence that the subrecipients were notified about the errors, and, if necessary, instructed on the proper way to prepare the reports.

- The FPD does not follow its own procedures when there is a problem with the monthly status of cash reports. The FPD's procedures require that monthly reports from subrecipients that show excess cash be forwarded to the Job Training Partnership Division (JTPD) for further action. In addition, if the FPD forwards a case to the JTPD for follow-up and the FPD does not receive a response from the JTPD within 30 days, the FPD's procedures require it to follow up with the JTPD to determine the status of the case. However, the FPD was unable to provide evidence that it followed up with the JTPD when no response was received within the 30 days. Three of the 24 cases we reviewed were forwarded to the JTPD for follow-up. We were unable to determine the resolution of two of the three cases since the JTPD does not maintain records of action taken

and the FPD was unable to provide evidence of further follow-up with the JTPD.

- The JTPD does not have a system to ensure proper follow-up on the monthly status of cash reports referred to them by the FPD. In addition, the JTPD does not currently maintain records indicating which monthly status of cash reports were received from the FPD. Therefore, the department is unable to adequately monitor which reports have been received, followed up, or resolved.
- The subrecipients are not currently required to maintain interest-bearing accounts for JTPA funds. According to a list provided by the department, only 33 of the 52 subrecipients currently maintain JTPA program funds in interest-bearing accounts. Since the amount of interest that these 33 subrecipients submitted to the department in fiscal year 1991-92 totaled approximately \$200,000, it appears that the interest not earned by the other 19 subrecipients could be significant.

Criteria:

The Code of Federal Regulations, Title 31, Section 205.4(a), requires that cash advances to primary recipients be limited to the minimum amounts needed and be timed to accord with the actual, immediate cash requirements of the recipient in carrying out the purpose of the approved program or project. The Code of Federal Regulations, Title 31, Section 205.4(e), requires that advances made to secondary recipients are to conform substantially to the same standards of timing and amount as apply to federal advances to primary recipients. In our opinion, proper compliance with federal regulations requires that primary recipients regularly monitor the cash balances of secondary recipients.

The FPD's Monthly Status of Cash Review Procedures require that the FPD refer excess cash problems to the JTPD. Furthermore, if the FPD does not receive a response from the JTPD within 30 days regarding

the resolution of the problem, the FPD is required to follow up with the JTPD.

The Job Training Partnership Office Policy and Procedure, Bulletin 84-11, requires that the subgrantee hold in trust any income generated as a result of the receipt of JTPA funds and remit the interest earnings to the department quarterly.

Recommendation: The department should improve its compliance with the federal requirements and its own established procedures. In addition, the department should require subrecipients to maintain interest-bearing accounts for JTPA funds.

Item 3. Relevant Sections of Federal Expenditure Reports Do Not Reconcile

Finding: The department did not properly reconcile two sections of quarterly reports showing the expenditures of federal funds for unemployment compensation for federal employees and ex-servicemembers. None of the four quarterly reports for fiscal year 1991-92 reconciled the two relevant sections in the reports. In one of the quarterly reports, the difference between the two sections totaled more than \$1 million.

The quarterly report is a summary of expenditures charged to federal unemployment programs for unemployment compensation paid to federal employees and ex-servicemembers. Section A of the report summarizes total expenditures charged to federal agencies for the quarter. Section B should provide a detail of the same total, broken down by charges to each individual civilian and military agency for the quarter. Therefore, the total of the expenditures reported in Section A should equal the total expenditures reported in Section B. The department stated that because of different data processing systems used to compile expenditure information, they are not able to reconcile the two sections of the report. Failure to properly assign

expenditures in the federal report may result in overcharges or undercharges to certain federal agencies. In addition, charges not properly assigned to federal agencies may affect the cash solvency of the federal fund that reimburses the State for unemployment compensation benefits paid to federal employees and ex-servicemembers.

According to a deputy director of the department, the reporting differences will be eliminated when the department's single client data base is fully implemented in December 1992.

Criteria: The United States Department of Labor's Employment Security Manual, Part V, Section 9336, D. 3., requires that the report totals assigned to federal agencies in Section A be equal to the totals generated from the assigned charges in Section B.

Recommendation: The department should continue to integrate its data processing systems so it can submit reports free of any differences between the two sections of the report.

Item 4. **Insufficient Procedures To Ensure Federal Receipts Are Credited to the Appropriate Federal Grant or State Appropriation**

Finding: The department did not properly record some federal funds received in the State Treasury for the Employment and Training Assistance - Dislocated Workers program. Specifically, during our review of 49 drawdowns for the Employment and Training Assistance - Dislocated Workers program and the Job Training Partnership Act program, we found that the department drew down \$159,000 from the Employment and Training Assistance - Dislocated Workers program but incorrectly requested the funds be deposited to the credit of the Job Training Partnership Act program.

In addition, the department did not ensure that all federal receipts were credited to the proper state appropriation. We found that the department credited to the wrong state appropriation more than \$632,000 in receipts for the two programs.

The department is in the process of implementing recently developed procedures that should prevent similar errors in the future. In addition, the department plans to perform an internal reconciliation to ensure that no other receipts are misclassified.

Criteria:

The Code of Federal Regulations, Title 20, Section 629.35(a)(2), requires that the department establish accounting procedures sufficient to allow the tracing of funds to ensure the funds are not misspent. In addition, the California Government Code, Section 13402, requires agencies to maintain an effective system of internal accounting and administrative control. Further, Section 13403 requires that a system of internal control include a system of recordkeeping procedures adequate to provide effective accounting controls over revenues and expenditures.

Recommendation:

The department should implement procedures designed to avoid misclassification of receipts. It should also ensure that the State Controller's Office is notified if any additional misclassified receipts are identified when the department completes its internal reconciliation process.

Item 5.

No Procedures To Ensure Subrecipients Submit Audit Reports Within Required Timeframes

Finding:

The department has not established procedures that outline actions it will take when subrecipients of the Job Training Partnership Act (JTPA) grant do not submit audit reports within one year after the end of the grant award period. The department has assumed the responsibility for monitoring the nonprofit subrecipients of JTPA funds. During our

review of the dates for eight audit reports of nonprofit subrecipients, we found that five of the reports were submitted to the department more than one year after the end of the grant award period. One of these five audit reports was received more than two years after the end of the grant award period. If the department does not receive audit reports within one year after the end of the grant award period, it may not be notified of major instances of noncompliance with federal laws and program regulations. Thus, the department may be delayed in implementing corrective action.

Criteria:

The United States Code, Title 29, Section 1574(a)(2), requires that the State prepare or have another entity prepare an independent financial and compliance audit of each subrecipient receiving Job Training Partnership Act funds. In addition, the Office of Management and Budget, Circular A-128, Section 13(f), requires that audit reports be submitted within one year after the end of the grant award period. Further, Section 17 states that agencies must consider sanctions that may include withholding a percentage of assistance payments or suspending the federal assistance until the audit is satisfactorily completed.

Recommendation:

The department should establish written procedures to outline the various steps it will take when subrecipients do not submit audit reports within one year after the end of the grant award period. These procedures should ensure that the program funds are audited, either by sending the department's own auditors to do the work, or by contracting with outside auditors.

Item 6.

Noncompliance With Prompt Payment Standards for
Interstate Unemployment Benefits

Finding:

For the 12 months ended March 31, 1992, the department did not comply with federal prompt payment standards for first-time payments of unemployment benefits for interstate claims. On

average, the department paid promptly only 43 percent of first-time unemployment benefit payments for all interstate claims. The federal prompt payment standard is 70 percent. According to the manager in the unit that pays interstate unemployment claims, the department had a very large backlog in claims over an extended period, along with an increase in the number of new claimants entering the system. In addition, the manager stated that the department depends on the claims processing of other states who, because of the general state of the economy, may be experiencing a similar increase in case loads. Failure to comply with federal regulations for first-time benefit payments may cause the federal government to impose fiscal sanctions on the department.

Criteria: The Code of Federal Regulations, Title 20, Section 640.5, requires that the State pay at least 70 percent, measured annually, of all first-time interstate claims within 14 days following the end of the first compensable week of unemployment.

Recommendation: The department should ensure that first time unemployment benefit payments are made promptly in compliance with federal regulations.

Item 7. **Failure To Ensure Adequate Collection Efforts of Outstanding Receivables From Subrecipients**

Finding: The department does not always make adequate efforts to collect outstanding receivables from subrecipients of the Job Training Partnership Act and the Employment and Training Assistance - Dislocated Workers programs. During our review of these programs, we found that some of the receivables have been outstanding for more than two years. Nonetheless, according to the department's assistant chief legal counsel, the only collection effort attempted for four accounts that total more than \$28,000 in receivables was to send three letters requesting payment.

Russell Gould, Secretary
Health and Welfare Agency
Management Letter X-510
Page 11

Because the department has not taken aggressive action to collect these accounts, it may be unable to collect some of the amounts owed. These funds must be returned to the federal government because the State no longer has the authority to spend them.

Criteria: The Code of Federal Regulations, Title 20, Section 629.44(d)(3), requires the department to take prompt, appropriate, and aggressive action to recover any funds misspent by secondary recipients. In addition, the Standard Operating Procedure (91-4) memorandum issued by the department requires that all affected units work together to ensure that amounts owed are promptly collected.

Recommendation: The department should ensure that it takes prompt and aggressive action to collect any outstanding receivables.

Item 8. Late Resolution of Audit Reports

Finding: In fiscal year 1991-92, the department did not resolve questioned costs in 11 of 81 audit reports for subgrantees of the Job Training Partnership Act program within the required six months after the cognizant federal agency received the final audit report. Failure to resolve questioned costs can result in additional questioned costs if the subgrantees do not correct deficiencies in their internal controls within a reasonable time.

We reported a similar weakness during our financial audits for the seven previous fiscal years. Last year, we reported that the number of audit reports resolved late had almost doubled. For fiscal year 1991-92, although the number of audit reports increased by 25 percent, late resolution of the reports decreased by 31 percent from the prior year.

Criteria: The Office of Management and Budget, Circular A-128, Section 14, requires the department to ensure that subgrantees take appropriate corrective action

within six months after the cognizant federal agency receives the subgrantees' audit reports.

Recommendation: The department should continue its efforts to reduce delays in the resolution of audits, so it can resolve questioned costs in all subgrantees' audit reports within the required timeframe.

Item 9. Incorrect Charges to the Employment Service Program

Finding: The department did not always correctly charge or allocate costs to the federal Employment Service program. Specifically, we found the department often did not correctly charge the costs associated with employee training. Ten of the 20 operating expenses tested were costs associated with employee training, such as class registration fees, conference fees, and travel expenses. We found that three of the 10 items were incorrectly charged to the Employment Service program. For one item, the department incorrectly charged the full amount of training time and training registration fees associated with out-service training for one employee to the Employment Service program rather than proportionately to the programs on which the employee worked.

For another item, the department incorrectly split costs for one employee's expenses related to training costs, travel, and other expenses to attend meetings and make presentations. These costs were incorrectly split between the Employment Service and Unemployment Insurance programs when the full amount should have been charged to the Employment Service program. During the month in which these expenses occurred, and also during the two months before and after, this employee only worked in the Employment Service program.

For the third item, the department charged the Employment Service program for an employee's travel and lodging costs associated with attending two separate conferences. The employee did not charge

any of the time during the conferences to the Employment Service program.

In addition, of the ten personal service charges we tested, we noted one improper charge to the Employment Service program. The full amount of the overtime hours of an employee was charged to the Employment Service program instead of being split correctly between the two programs that the employee worked on during the overtime hours and that the employee normally charges to. This employee worked on both the Employment Service and Disability Insurance programs.

We reported a similar weakness during our financial audit for fiscal year 1990-91. On July 17, 1992, in response to our finding, the department issued an administrative circular on procedures for charging training costs. The administrative circular instructs employees to charge time and training costs consistently and to the program, or programs, that benefit from the training. The administrative circular also states that, in all cases when time and training costs are not charged consistently, justification must be documented and approved by a supervisor. This circular will clarify departmental policy and strengthen controls to ensure that the department properly charges the costs to the correct programs. Because we did not issue our management letter for fiscal year 1990-91 until May 1992, the department's corrective action will not become evident until our audit of fiscal year 1992-93.

Criteria:

The Office of Management and Budget, Circular A-87, states that, for costs to be allowable under a grant program, costs must be consistent with the department's policies and procedures that apply uniformly to both federal and state programs. Further, these costs must not be allocable to any other federally funded programs. The department's Employee Time Reporting Handbook, Section 9-0800, states that time employees spend in general training should be charged to the training activity code for the program in which the employee normally works.

It also states that if the employee normally has substantial charges to two or more programs, then the training time should be prorated among the training activity codes for those programs.

Further, a department official stated that training costs that cannot be directly charged to a specific program are generally allocated among programs based on reasonable and equitable methods. The official further stated that these methods may include allocating the costs proportionately between the programs the employee charges time to during the training period.

Recommendation: The department should ensure all employees are made aware of the policy stated on the administrative circular. The department should also strengthen its controls to ensure that charges for costs associated with employee training are made in accordance with the department's new policy.

Item 10.

Late Federal Financial Reports

Finding: The department did not submit its monthly Unemployment Insurance Financial Transactions Summary reports within ten business days after the end of the month, as required, for any of the months during fiscal year 1991-92. The department submitted the reports as late as 29 business days after the deadline. In addition, the department did not submit its quarterly reports showing the expenditures of federal funds for unemployment compensation for federal employees and ex-servicemembers within 25 days, as required, for the four quarters in fiscal year 1991-92. The reports were as late as 45 calendar days after the deadline. The department stated that it cannot promptly submit the reports because it cannot summarize the information within the required timeframe. Failure to promptly submit these reports may place the department in jeopardy of fiscal sanctions imposed by the federal government.

We reported a similar weakness during our financial audits for the eight previous fiscal years. The department reports that, once it has fully implemented its single client data base, in December 1992, it will be able to submit the reports within the required timeframe.

Criteria: The United States Department of Labor's Employment Security Manual, Part V, Section 9320, requires the department to submit the Unemployment Insurance Financial Transaction Summary report within ten business days after the end of each month. In addition, the Employment Security Manual, Part V, Section 9336(4), requires the department to submit the report showing the expenditures of federal funds for unemployment compensation for federal employees and ex-servicemembers by the 25th day after the end of each quarter.

Recommendation: The department should continue to automate its accounting systems so it can submit reports within the required timeframe.

Item 11. **Delay in Follow-up of Potential Receivable**

Finding: The department did not always comply with the administrative requirements of the federal Job Training Partnership Act. Specifically, the department did not promptly follow-up a letter it sent to a subrecipient notifying it of a preliminary assessment that the subrecipient had exceeded the federal limit for administrative expenditures by more than \$222,000. The letter also requested that the subrecipient submit a corrective action plan within 30 days. However, more than two months after the 30-day period had expired, the corrective action plan had not been received, and the department had not taken action to ensure the corrective action plan would be submitted. As a result of the delay, the department was unable to promptly make a final determination concerning the possibility of establishing a receivable for this amount. After our discovery of this issue, the department proposed

Russell Gould, Secretary
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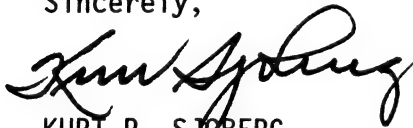
changes to its procedures so that the situation would not recur.

Criteria: The Code of Federal Regulations, Title 20, Section 629.44(d)(3), requires that the department take prompt, appropriate, and aggressive action to recover any funds misspent by secondary recipients.

Recommendation: The department should continue to monitor its letters identifying potential receivables and ensure that corrective action plans are promptly submitted. If the corrective action plans are not promptly submitted, the department should initiate collection procedures.

If you have a different perception of any of the items summarized above, please let me know by November 6, 1992. We may include these items in the statewide management letter that we will submit to the Department of Finance at a later date. Thank you for your cooperation.

Sincerely,



KURT R. SJOBERG
Auditor General (acting)

cc: Thomas Nagle, Director
Employment Development Department



Serving the People of California



M E M O R A N D U M

To: Kurt R. Sjoberg, Acting Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Date: November 6, 1992

File No.: 78:59

Via: Health and Welfare Agency

From: Employment Development Department

Subject: **MANAGEMENT LETTER X-510**

The Employment Development Department welcomes the opportunity to review and respond to Management Letter X-510, issued by the Office of the Auditor General, as a result of the Single Audit of the Department's administration of federal programs for the Fiscal Year Ended June 30, 1992.

We concur with the findings and offer the attached comments that specifically address the audit recommendations. The Auditor General staff's cooperation enables us to deal with potential problems and issues before the audit is completed.

The Department appreciates the cooperation of the Auditor General's staff during the audit.

THOMAS P. NAGLE
Director

Attachment

STATE OF CALIFORNIA
EMPLOYMENT DEVELOPMENT DEPARTMENT
MANAGEMENT LETTER X-510

Report (Item 1.): "Deficient Controls in the Unemployment Benefit Payment System"

Recommendation: "The Department should continue to implement corrective action to ensure that all benefit awards to claimants are recomputed when changes to the base wage file are made. In addition, the Department should put tight limits on the override capability in the automated benefit payment system. Finally, the Department should determine the number of instances where the controls discussed above may have allowed additional overpayments. The Department should then collect the overpayments."

Department Response: The Department has initiated corrective action to ensure that changes to the base wage file generate flags from the system to notify the appropriate units when to recompute benefit awards to claimants. A Data Processing Service Request has been submitted requesting programming that will generate a flag when on-line adjustments, wage transfers, and wage deletions have been made.

The Single Client Data Base has been programmed so that the override feature will not automatically bypass edit functions except in severely limited situations. The override function is restricted by the operator's security pattern that is assigned and monitored by field office managers.

The Department is taking prompt action to recover any overpayments that have been identified through internal and external audit processes.

**STATE OF CALIFORNIA
EMPLOYMENT DEVELOPMENT DEPARTMENT
MANAGEMENT LETTER X-510**

- Report (Item 2.):** "Insufficient Monitoring of Subrecipients' Cash Balances"
- Recommendation:** "The Department should improve its compliance with the federal requirements and its own established procedures. In addition, the Department should require subrecipients to maintain interest-bearing accounts for JTPA funds."
- Department Response:** Fiscal Programs Division (FPD) is checking and forwarding all questionable "Monthly Status of Cash" reports to the Job Training Partnership Division (JTPD). FPD conducts a follow-up in those instances where no response is received from JTPD within 30 days. FPD is developing procedures to assure that subrecipients are contacted to resolve incorrect "Monthly Status of Cash" reports. JTPD is developing a tracking system to follow the resolution of excess cash reviews; and the requirement that every subrecipient is to maintain Job Training Partnership Act (JTPA) funds in separate interest bearing accounts is also being reviewed. The Department is developing more accurate indicators for excess cash. Since Service Delivery Areas (SDA) are allowed to borrow within fund sources and there are typical differences in reporting periods, e.g., between calendar months versus reporting quarters, most (over 90 percent) excess cash problems do not show up as actual problems.
- Report (Item 3.):** "Relevant Sections of Federal Expenditure Reports Do Not Reconcile"
- Recommendation:** "The Department should continue to integrate its data processing systems so it can submit reports free of any differences between the two sections of the report."
- Department Response:** The Department completed conversion of all the Unemployment Insurance program data to the Single Client Data Base that will resolve problems of reconciliation such as cutoff dates between various systems. A work group will develop procedures to identify expected differences between the expenditures and the billing on the ETA 191 report.

STATE OF CALIFORNIA
EMPLOYMENT DEVELOPMENT DEPARTMENT
MANAGEMENT LETTER X-510

- Report (Item 4.):** "Insufficient Procedures To Ensure Federal Receipts Are Credited to the Appropriate Federal Grant or State Appropriation"
- Recommendation:** "The Department should implement procedures designed to avoid misclassification of receipts. It should also ensure that the State Controller's Office is notified if any additional misclassified receipts are identified when the Department completes its internal reconciliation process."
- Department Response:** The Department has implemented a corrective action plan to reconcile the JTPA Program for 1991-92 and 1992-93 to the State Controller's records. The State Controller's office will be notified of any additional misclassified receipts. Procedures for the JTPA program have also been implemented for borrow and/or loan transactions. This will leave an audit trail of all funds involved and will correct any misclassification of receipts.
- Report (Item 5.):** "No Procedures To Ensure Subrecipients Submit Audit Reports Within Required Time Frames"
- Recommendation:** "The Department should establish written procedures to outline the various steps it will take when subrecipients do not submit audit reports within one year after the end of the grant award period. These procedures should ensure that the program funds are audited, either by sending the Department's own auditors to do the work, or by contracting with outside auditors."
- Department Response:** The Department will prepare written procedures that outline the steps it will take when a subrecipient does not submit an audit report within the time requirements established under federal law. The procedures will include conducting an audit of the subrecipient by either a subcontractor or by the Department's own auditors.

**STATE OF CALIFORNIA
EMPLOYMENT DEVELOPMENT DEPARTMENT
MANAGEMENT LETTER X-510**

- Report (Item 6.):** "Noncompliance With Prompt Payment Standards for Interstate Unemployment Benefits"
- Recommendation:** "The Department should ensure that first time unemployment benefit payments are made promptly in compliance with federal regulations."
- Department Response:** The Department is conducting weekly work group meetings. The goal is to identify production work flow processes that can be enhanced to ensure that first payment time lapse criteria are met. California is participating in the ClaimNet Pilot Project. The ClaimNet System will enhance the Internet System for paying claims of individuals who have moved from California and who file unemployment insurance claims in other states.
- Report (Item 7.):** "Failure To Ensure Adequate Collection Efforts of Outstanding Receivables From Subrecipients"
- Recommendation:** "The Department should ensure that it takes prompt and aggressive action to collect any outstanding receivables."
- Department Response:** The procedure used for resolving questioned/disallowed costs results in a determination which is not a judgment, and is therefore not enforceable by legal process. Legal Office is engaged in developing a process to:
- (1) Review presently existing determinations to determine if any are collectible, and
 - (2) Develop a procedure to either:
 - (a) Offset these determinations against other funds due to the SDA, or
 - (b) Obtain a collectible judgment.

A legislative proposal has also been sent forward which will clarify the liability of local government entities.

STATE OF CALIFORNIA
EMPLOYMENT DEVELOPMENT DEPARTMENT
MANAGEMENT LETTER X-510

Report (Item 8.): "Late Resolution of Audit Reports"

Recommendation: "The Department should continue its efforts to reduce delays in the resolution of audits, so it can resolve questioned costs in all subgrantees' audit reports within the required time frame."

Department Response: The Department is making every effort to reduce delays in the resolution of audits and to issue final audit determinations within the required 180 days. The Department's new procedures, implemented last year, have been effective in improving the system. The finding points out that the late resolution of audits has decreased by 31 percent in the past year even though the number of audits has increased by 25 percent.

Report (Item 9.): "Incorrect Charges to the Employment Service Program"

Recommendation: "The Department should ensure all employees are made aware of the policy stated on the administrative circular. The Department should also strengthen its controls to ensure that charges for costs associated with employee training are made in accordance with the Department's new policy."

Department Response: The Department issued an Administrative Circular dated July 17, 1992, outlining procedures for charging training costs. The Circular instructs employees to charge time and training to the program(s) benefiting from the training. If the programs cannot be determined, employees will proportionately charge the program(s) in which they work. Because the Auditor General's Management Letter was issued in May 1992, the Department's corrective action will not become evident until SFY 1992-93.

STATE OF CALIFORNIA
EMPLOYMENT DEVELOPMENT DEPARTMENT
MANAGEMENT LETTER X-510

- Report (Item 10.): "Late Federal Financial Reports"
- Recommendation: "The Department should continue to automate its accounting systems so it can submit reports within the required time frame."
- Department Response: The Department has completed conversion of all the Unemployment Insurance program data to the Single Client Data Base system. A work group has been working for the past ten months to ensure the timeliness of reporting beginning with the report month of December 1992.
- Report (Item 11.): "Delay in Follow-up of Potential Receivable"
- Recommendation: "The Department should continue to monitor its letters identifying potential receivables and ensure that corrective action plans are promptly submitted. If the corrective action plans are not promptly submitted, the Department should initiate collection procedures."
- Department Response: New follow-up coordination procedures have been established between the JTPD's Program Analysis Unit that identifies over/under expenditures and the Monitoring Unit that reviews SDA program compliance. The corrective action plan and the potential receivables will be tracked on the Monitoring Unit's Corrective Action Tracking System that is reviewed on a monthly basis. Late responses will be submitted to the Resolution and Technical Support Unit for collection.



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

November 3, 1992

Management Letter X-426

Russell Gould, Secretary
Health and Welfare Agency
1600 Ninth Street, Room 460
Sacramento, California 95814

Dear Mr. Gould:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the Department of Health Services' (department) administration of federal programs. We noted certain deviations from federal regulations, that are designed to protect the public's resources. The following comments and recommendations are intended to improve the administration of federal programs.

On October 29, 1992, my staff met with Darrell Doty and other department staff to discuss weaknesses in the department's administration of the following federal programs: the Medical Assistance Program (Federal Catalog No. 93.778); the Special Supplemental Food Program for Women, Infants, and Children (Federal Catalog No. 10.557); the Refugee and Entrant Assistance--State Administered Programs (Federal Catalog No. 93.026); the Maternal and Child Health Service Block Grant (Federal Catalog No. 93.994); the State Legalization Impact Assistance Grants (Federal Catalog No. 93.025); and the State Survey and Certification of Health Care Providers and Suppliers (Federal Catalog No. 93.777). During the meeting, my staff also discussed recommendations to resolve these weaknesses. The following is a summary of the items discussed during the meeting.

Item 1.

Audit Reports for Nonprofit Subrecipients Not Received Promptly

Finding:

The department did not ensure that it promptly received required biennial audit reports for nonprofit subrecipients for two programs we reviewed. Specifically, the department could not

provide us with current audit reports for four of the six subrecipients we reviewed in the primary care clinics program. One of these biennial reports was due for the end of fiscal year 1989-90, and five reports were due for the end of fiscal year 1990-91. In addition, one of the six prior audit reports we reviewed for these subrecipients was not conducted in accordance with federal Office of Management and Budget requirements. These clinics received federal funding from the State Legalization Impact Assistance Grants.

For the 15 nonprofit subrecipients we reviewed for the federal Maternal and Child Health Services Block Grant, only one audit report was clearly received within the deadlines established both in departmental contracts with subrecipients and the federal Office of Management and Budget, Circular A-133. Eight reports clearly did not meet the contractual deadline, and, of these eight, three also did not meet the Circular A-133 deadline. The remaining six of the fifteen audit reports either were not date-stamped upon receipt, so the department could not demonstrate the timeliness of submission of the reports, or were not due as of the end of our field work. For one audit report we reviewed, the department failed to require the subrecipient to provide the audit management letter that described audit findings. As a result, the department did not ensure the subrecipient corrected identified problems. Without the appropriate audit reports, the department lacks assurance that the nonprofit subrecipients are complying with federal laws and regulations.

We reported a similar weakness for the Maternal and Child Health Services Block Grant during our audits for fiscal years 1989-90 and 1990-91. In its response to our fiscal year 1990-91 management letter, dated May 27, 1992, the department stated that the Maternal and Child Health Branch and the Audits and Investigations unit were working together to ensure that future audits would be submitted and

reviewed promptly. Since then, the department has developed procedures for monitoring the receipt of required audit reports. These procedures, if followed, are adequate for monitoring the receipt of the reports.

Criteria: The contractual agreements between the State and nonprofit subrecipients establish a deadline of 5 months and 15 days after the end of the subrecipient's fiscal year for the submission of the required audit reports. The federal Office of Management and Budget, Circular A-133, which describes audit requirements for nonprofit agencies, requires the State to ensure that its nonprofit subrecipients submit audit reports no later than 13 months after the end of the subrecipients' fiscal year. Circular A-133 also requires the State to resolve audit findings within six months after the receipt of the report.

Recommendation: The department should ensure that nonprofit subrecipients promptly submit the required audit reports and correct any deficiencies the audit reports identify.

Item 2. **Excess Federal Cash on Hand**

Finding: The department maintained a balance of federal funds for the Medical Assistance Program that exceeded the department's immediate cash needs. This condition existed because the department inadvertently duplicated a request to the federal government for \$37 million to cover program costs. The department held the excess federal money for approximately one month, from early August to early September 1992, when it offset this balance against federal drawdowns for other program costs.

Criteria: The Code of Federal Regulations, Title 31, Section 205.4(a), requires that cash advances be limited to the actual immediate cash needs for carrying out the purpose of the program. This section also stipulates that the timing and amount

of cash advances be as close as administratively feasible to the actual disbursement by the recipient organization.

Recommendation: The department should ensure that its requests for federal funds are limited to its immediate cash needs.

Item 3. **Unapproved Indirect Cost Allocation System**

Finding: During fiscal year 1991-92, the department allocated indirect costs for all federal programs using a method that was not approved by the federal government. Before fiscal year 1991-92, the department allocated indirect costs using provisional rates contained in the Indirect Cost Rate Proposal. The department would subsequently amend the original rates when actual costs for the applicable fiscal year were available. In January 1991, the department submitted a Cost Allocation Plan (CAP) to the federal Department of Health and Human Services. The CAP, effective for fiscal year 1991-92, described a four-step process by which indirect costs would be allocated, based on actual costs, to all federal programs. Although the federal government rejected the CAP, the department used it to allocate indirect costs to its federal programs during fiscal year 1991-92. Because the department used a cost allocation system that the federal government did not approve, the federal government may disallow indirect costs allocated to the department's federal programs.

Criteria: The federal Office of Management and Budget, Circular A-87, requires the department to prepare a plan for the allocation of costs required to support the distribution of any joint costs related to the grant program. Circular A-87 also states that the department's cognizant federal agency will approve the allocation plan before the department incurs specific costs.

Recommendation: The department should confer with the federal Department of Health and Human Services to determine what action is necessary to obtain federal approval of its indirect cost allocation system.

Item 4. Lack of Site Reviews

Finding: The department did not conduct all required biennial site reviews for the administration of its federal Special Supplemental Food Program for Women, Infants, and Children (WIC). Specifically, the department did not conduct biennial site reviews during the two years ending September 30, 1992, for 7 of 80 local agencies. In addition, of the 8 local agencies we chose to examine for the federal fiscal year ended September 30, 1992, the department did not conduct a nutrition assessment for 2 of the agencies.

Without such site visits, which include reviews to determine whether the local agencies provide appropriate nutrition assessments, the department lacks assurance that the local agencies are complying with requirements of the WIC program.

Criteria: The Code of Federal Regulations, Title 7, Section 246.6(b), states that local agencies providing WIC services should meet specific requirements in dispensing services to beneficiaries. As part of the department's procedures to ensure that local agencies meet these requirements, the California State Plan for Operation of the Special Supplemental Food Program for Women, Infants, and Children requires the department to conduct a biennial site review at each local agency. The review process must include an evaluation of nutrition assessment.

Recommendation: The department should complete the required site reviews of local agencies.

Item 5.

Food Vouchers Not Reconciled Promptly

Finding:

For fiscal year 1991-92, the department was late in reconciling approximately 20 percent of the food vouchers it issued with the food vouchers participants redeemed through the WIC program. The department did not complete the reconciliations within 150 days of the first day of authorized use. Failure to promptly reconcile the vouchers may delay detection of irregularities, such as the redemption of fraudulent food vouchers.

We reported a similar weakness during our audits for fiscal years 1987-88 through 1990-91. In its response to our fiscal year 1990-91 management letter, dated May 27, 1992, the department stated that the way in which food vouchers are reconciled had been modified, and as a result, the reconciliations are now being performed within 150 days. While the department is still not reconciling all the vouchers issued with vouchers paid within 150 days, we did note a significant improvement during the last nine months of fiscal year 1991-92. Specifically, during this period, the department was late in reconciling only 0.24 percent of the food vouchers issued with the food vouchers redeemed.

Criteria:

The Code of Federal Regulations, Title 7, Section 246.12(n)(1), requires the department to reconcile the food vouchers it issues with the food vouchers participants redeem within 150 days of the first date of authorized use.

Recommendation:

The department should continue its efforts to reconcile food vouchers redeemed within 150 days of the vouchers' issue dates.

Item 6. **Suspension of Procedures for Detecting and Resolving Dual Enrollment**

Finding: In July 1987, the department suspended its procedures for detecting dual enrollment in the WIC program because the procedures did not operate as intended and produced inaccurate reports. These reports were intended to detect WIC participants who may have enrolled at more than one location. The department's failure to produce accurate reports reduced its ability to detect and resolve participant abuses.

We reported a similar weakness in our audits for fiscal years 1987-88 through 1990-91. The department is developing procedures to detect dual enrollment for staff at the department and the local agencies. According to the chief of the WIC's Education, Standards, and Surveillance Unit, the department expects to implement these procedures in February 1993.

Criteria: The Code of Federal Regulations, Title 7, Section 246.7(k), requires the department to detect instances of dual participation.

Recommendation: The department should increase its efforts to establish reliable procedures to detect instances of dual participation.

Item 7. **Inaccurate Federal Financial Reports**

Finding: The department does not always accurately prepare its federal financial reports. Specifically, we noted the following conditions:

- The department's annual close out report for the WIC program, for the federal fiscal year ended September 30, 1991, does not reconcile to the accounting records. Specifically, the department reported in the close out report approximately \$3.6 million more in administrative expenditures and approximately

\$5.6 million less in food expenditures than it recorded in its accounting records. Further, as of October 20, 1992, the department could not provide us with a reconciliation between the close out report and the accounting records.

- The federal financial status reports the department prepared for the State Legalization Impact Assistance Grants (SLIAG) for the quarter ended June 30, 1992, reported approximately \$1.5 million in expenditures for which the department had no firm documentation. In addition, the reports misclassified approximately \$1 million of administrative costs as program costs. Finally, the department reported approximately \$5.8 million more in authorized federal funds than related records showed at the Department of Social Services, which monitors the grant allocations for all departments with SLIAG costs.

Criteria: The Code of Federal Regulations, Title 7, Section 246.13(c), requires the department to maintain records that adequately identify the source and use of funds spent for program activities. Further, the State Administrative Manual, Section 20014, requires agencies receiving federal funds to reconcile federal financial reports with the official accounting records. The Code of Federal Regulations, Title 45, Section 402.51(c)(1), requires the department to prepare financial status reports that indicate the amount of grant funds obligated and spent. The prescribed federal format for financial status reports also requires the department to report authorized federal funds.

Recommendation: The department should ensure that federal reports contain accurate information and are reconciled to official accounting records.

Item 8.

Insufficient Documentation of Nutrition Education
Expenditures Reported to the Federal Government

Finding:

The department did not adequately document the nutrition expenditures for the WIC program. In addition, the department did not ensure that the year-end nutrition education expenditures reported by local agencies were correctly recorded in the department's records. Specifically, we found the following problems:

- The department was unable to provide year-end nutrition education expenditure reports for 7 of the 83 local agencies and was unable to provide alternative supporting documentation for these expenditures.
- Of the 76 local agency reports the department had on file, 6 did not agree with the department's records.

Without sufficiently documenting and recording year-end nutrition expenditures, the department cannot ensure the information it reports to the federal government is complete and accurate.

Criteria:

The Code of Federal Regulations, Title 7, Section 246.13(c), requires the department to maintain records that adequately identify the source and use of funds spent for program activities.

Recommendation:

The department should maintain adequate documentation of nutrition education expenditures, and it should ensure the expenditures reported by local agencies are correctly recorded in its records.

Item 9. **Uncertainty in How Often Certain Health Care
Providers Are To Be Surveyed for Health and Safety
Certifications**

Finding: The department and the Health Care Financing Administration (HCFA) did not have a clear agreement about how often the department was to perform the health and safety certifications of facilities other than long-term care facilities that provide health care services for the Medicare program and the Medical Assistance Program. Annually, the HCFA approves budgets for the department specifying the percentage of providers the HCFA expects the department to survey. However, the HCFA does not clarify how often each provider is required to be surveyed. As a result, the department is not sure how often it must survey the various types of providers to meet federal requirements. Therefore, the department has established and uses its own requirements, which may or may not satisfy the required federal percentages specified in the annual budget letters. Without regular surveys and certifications, participants of the Medicare program and the Medical Assistance Program cannot be assured that providers are meeting required health and safety requirements.

Criteria: The Code of Federal Regulations, Title 42, Section 488.20, states that the federal determinations of compliance with health and safety requirements extend for 12 months, and the State is responsible for resurveying as frequently as necessary to determine continued compliance and confirm the correction of deficiencies. The annual federal budget letters, which indicate the percentage of providers the HCFA expects the department to survey, do not specify how often the department must survey each provider. The California Health and Safety Code, Section 1279, requires surveys every two or three years, depending on the nature of the provider, and as often as necessary to ensure the quality of care being provided.

Recommendation: The department and the HCFA should work together to clarify how often the different types of health care providers participating in the Medicare program and the Medical Assistance Program should be surveyed for compliance with health and safety requirements.

Item 10.

Noncompliance With Certain Federal Requirements

Finding and
Criteria:

In the following instances, the department did not always comply with administrative requirements of the federal government:

- The Legal Services unit allocated approximately \$267,000 to various programs in November 1991, using percentages based on personal service hours from August 1991. Because the department did not use the current rates, the unit's costs were not correctly allocated to the programs benefited. Specifically, ten programs were undercharged a total of approximately \$20,000 and four programs were overcharged for the same amount. The Office of Management and Budget, Circular A-87, Attachment A, Paragraph F(1), states that indirect cost pools should be distributed on a basis that will result in a fair allocation of costs to the programs benefited.
- For the quarter ending March 31, 1992, the department overcharged the State Survey and Certification of Health Care Providers and Suppliers funded by the Health Insurance for Aged and Disabled (Medicare) by \$1,815 and undercharged the Medical Assistance Program (Medicaid) and the State by \$910 and \$905, respectively. The error occurred because the department did not follow the HCFA guidelines. In its letter dated September 10, 1991, HCFA requires the department to split the costs of the department's Nurse Aide Certification program based on the number of nursing facilities participating in Medicare or Medicaid.

- Three vouchers we examined for the WIC program were redeemed before the authorized dates. In addition, departmental records indicate that, for each month of fiscal year 1991-92, vouchers were redeemed before the authorized issue date. This is possible because some food vouchers can be issued two to three months in advance to qualified recipients. The Code of Federal Regulations, Title 7, Sections 246.12(r)(2)(i) and (ii), requires food vouchers to be redeemed on or after the authorized date.
- One voucher we examined for the WIC program was not deposited within 60 days of the date of issuance. The Code of Federal Regulations, Title 7, Section 246.12(r)(2)(iii), requires food vendors to submit vouchers for payment by the expiration date identified on the voucher. The department's WIC program manual, Section 310-40, states that vendors have 60 days from the issue date to submit vouchers for payment.
- For one of the 77 automated Medi-Cal payments we tested, the department overpaid one provider by \$26. The overpayment occurred because a long-term care provider billed Medi-Cal at its regular daily rate while holding a bed open for a patient who had been temporarily moved to a hospital. The Code of Federal Regulations, Title 22, Section 51535.1(d), requires that payments to long-term care facilities for beneficiaries who are on bed hold should be made at the appropriate facility daily rate less \$3.78 for raw food costs.

Although individually these deviations may not appear to be significant, they do represent noncompliance with federal regulations, which are designed to protect the public's resources from abuse.

Recommendation: The department should improve its compliance with federal requirements.

Russell Gould, Secretary
Health and Welfare Agency
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If you have a different perception of any of the items summarized above, please let me know by November 10, 1992. We may include these items in the statewide management letter that we will submit to the Department of Finance at a later date. Thank you for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Kurt Sooberg", written in a cursive style.

KURT R. SOOBERG
Auditor General (acting)

cc: Dr. Molly Coye, Director
Department of Health Services

DEPARTMENT OF HEALTH SERVICES

714/744 P STREET
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(916) 657-1425



November 12, 1992

Mr. Kurt R. Sjoberg
Acting Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

MANAGEMENT LETTER X-426

Thank you for the opportunity to comment on the findings and recommendations made by members of your staff during their comprehensive financial and compliance audit of the Department of Health Services (DHS) for the fiscal year (FY) ended June 30, 1992.

Mr. Russell Gould, Secretary of the Health and Welfare Agency has asked me to respond to your Management Letter dated November 3, 1992. Our response to each audit finding mentioned in your letter is shown below following a restatement of each finding and recommendation.

Finding 1: **Audit Reports for NonProfit Subrecipients Not Received Promptly**

Recommendation: The Department should ensure that nonprofit subrecipients promptly submit the required audit reports and correct any deficiencies that the audit reports identify.

Response: DHS concurs with the findings and recommendation. In the last audit report issued in May, 1992, the findings indicated basically that CPA audits were not being submitted from contractors. The findings of the current report dated November 1992 indicate that the contractors are not submitting the audit reports on a timely basis. The fact that the contractors are now submitting the CPA audits and that Audits and Investigations (A&I) is reviewing them from compliance demonstrates that Maternal and Child Health (MCH) Branch, Primary Care and Rural Health (PC&RH) Branch, and A&I have made significant progress in meeting the guidelines in Circular A-133.

For the past six months, MCH and PC&RH have been members of a task force including A&I and other PC&FH Branches. The task force is not only attempting to resolve those findings from the last audit report, but is fine tuning the procedures which will ensure compliance with Circular A-133. Procedures have been developed and implemented to assure the timely receipt of the single audit. These procedures include letters that inform the

providers that a single audit is required with the due date and a follow-up letter if the report is delinquent. Currently, these letters are prepared by A&I based on the master contractor listing and submitted to MCH and PC&RH for issuance. The initial letters are sent at the beginning of the last month of the provider's fiscal year end. A master tracking system has been developed to track the due date, receipt and review of all the single audits.

A&I has also developed a review process to assure compliance with OMB A-133. The Department agrees with the AG's finding regarding the failure to require contractors to submit the audit management letter that describes audit findings. The audit check list has been expanded to include a review of all documents included or referred to in the single audit.

Finding 2: **Excess Federal Cash on Hand**

Recommendation: The Department should ensure that its requests for federal funds are limited to its immediate cash needs.

Response: DHS concurs that federal funds for the Medical Assistance Program were retained that exceeded the Department's immediate cash needs. This error occurred due to inexperienced staff not crediting the cancellation of two claim schedules that were drawn. Once this was realized, the Department did return the federal funds. This matter has been discussed with involved staff to avoid any future overdraft of federal funds in a similar situation.

Finding 3: **Unapproved Indirect Cost Allocation System**

Recommendation: The Department should confer with the federal Department of Health and Human Services to determine what action is necessary to obtain federal approval of its cost allocation system.

Response: DHS agrees that the Calstars Accounting System cost allocation process was used, as a provisional method, to bill for indirect costs during the 1991/92 fiscal year. However, it is the Department's position that this was allowable under the last approved indirect cost rate (approved January 30, 1992), which under Section II (F) states "If any federal contract, grant or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the department/agency should (1) credit such costs to the affected programs and

(2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to the programs". It is the full intention of DHS to apply the approved rate for the 1991/92 fiscal year when such a rate is approved by the Federal Government. DHS intends to submit the 1991/92 fiscal year rate in December of 1992. However, the 1990/91 rate submitted in December 1991 has not yet been approved by the Federal government as of November 1992.

Further, the last approved rate from the Federal Government stipulates in Section II (C) Fixed Rates: "If a fixed rate is in this Agreement, it is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined, an adjustment will be made to a rate of a future year(s) to compensate for the difference between the costs used to establish the fixed rate and actual costs". The Federal Government, according to staff within the Department, has precluded the Department from adjusting future year rates with a roll forward adjustment.

It is still the intention of DHS to solicit from the Federal Government the approval of a Cost Allocation Plan method rather than the rate method presently employed.

Finding 4: Lack of Site Reviews

Recommendation: The Department should complete the site reviews of local agencies.

Response: DHS concurs with this recommendation. Due to staffing shortages and vacant positions during the audit period, the Women, Infants and Children (WIC) Branch was unable to perform all of the required site visits. Currently the program has reorganized site-review teams to perform the required visits. It is expected that the additional capacity planned for site-reviews will result in completion of 40 site-reviews per year, as required.

Finding 5: Food Vouchers Not Reconciled Promptly

Recommendation: The Department should continue its efforts to reconcile food vouchers redeemed within 150 days of the vouchers' issue dates.

Response: As stated in response to the fiscal year 1990/91 Auditor General Management Letter G-426, DHS has modified the manner in which the food voucher reconciliations are accomplished.

Implementation of the modified reconciliation process required the cooperative efforts of staff from the WIC Branch, DHS Data Systems Branch, and the State Treasury's Office.

Since the process was modified, the food voucher reconciliation has been accomplished within the required 150 days as follows:

1992 Reporting Period	Days to Reconcile
January	119
February	139
March	85
April	122
May	144
June	72

The 0.24 percent of late reports referred to in Management Letter X-426 occurred prior to implementation of the revised process.

DHS will continue its efforts to reconcile food vouchers redeemed with 150 days of the voucher's issue dates.

Finding 6: **Suspension of Procedures for Detecting and Resolving Dual Enrollment**

Recommendation: The Department should increase its effort to establish reliable procedures to detect instances of dual participation.

Response: DHS agrees. The WIC Branch is currently working on a major multimillion dollar automation effort which will be able to accurately assess and prevent dual enrollment of participants. This automation effort is expected to be implemented in all local agencies within three years. In the meantime, the WIC program is currently finalizing manual procedures to detect dual enrollment until the automation project is implemented.

The manual system is expected to be implemented by January 1993.

Finding 7: **Inaccurate Federal Financial Reports**

- a. The Department's annual close out report for the WIC program, for the federal fiscal year ended September 30, 1991, does not reconcile to the accounting records. Specifically, the Department reported in the close out report approximately \$3.6 million more in administrative expenditures and approximately \$5.6 million less in food expenditures than it recorded in its accounting records. Further, as of October 20, 1992, the Department could not provide us with a reconciliation between the close out report and the accounting records.
- b. The federal financial status reports the Department prepared for the State Legalization Impact Assistance Grants (SLIAG) for the quarter ended June 30, 1992, reported approximately \$1.5 million in expenditures for which the Department had no firm documentation. In addition, the reports misclassified approximately \$1 million of administrative costs as program costs. Finally, the Department reported approximately \$5.8 million more in authorized federal funds than related records showed at the Department of Social Services, which monitors the grant allocations for all departments with SLIAG costs.

Recommendation: The Department should ensure that federal financial reports contain accurate information and are reconciled to the official accounting records.

- Response: a.** DHS agrees that there were differences between DHS' accounting records and the WIC Federal Financial Report. The amounts shown on the WIC federal report were correct. At the time of the audit it was known by Accounting Section staff that some adjusting transactions were needed to be posted to the Accounting system. We are in the process of making the reconciling adjustments and they will be reflected in accounting reports for the month of November 1992.
- b. DHS concurs that the accounting records did not support the federal report of expenditures. Reconciliations that would have identified this problem were not completed. This policy has been reinstated and the prior year reports will be reconciled and revised reports will be filed, if necessary. Additionally, after it was realized that the report's authorized amount did not agree with the records at the Department of Social Services (DSS), a policy was instituted to verify balances with DSS prior to completing a report. This error has not reoccurred to our knowledge.

Finding 8: **Insufficient Documentation of Nutrition Education Expenditures Reported to the Federal Government**

Recommendation: The Department should maintain adequate documentation of nutrition education expenditures, and it should ensure the expenditures reported by the local agencies are correctly recorded in its records.

Response: The State WIC program is required to justify a minimum expenditure of funds for nutrition education activities. The federal regulations require each state to spend one-sixth of its total administrative budget for nutrition education activities. Even though seven of the 83 agencies did not provide adequate documentation of nutrition education expenditures, the Branch still met the minimum federal requirement for nutrition education expenditures.

The WIC program will investigate and correct discrepancies found between local agency reports and department records. The program will work to improve reporting methodologies to assure more accurate reports to the Federal Government in the future. The WIC program has recently undergone a reorganization. The improved internal structure and additional staff will facilitate the accurate collecting and reporting of local agency nutrition education expenditures.

Finding 9: **Uncertainty in How Often Certain Health Care Providers are to be Surveyed for Health and Safety Certifications**

Recommendation: The Department and HCFA should work together to clarify how often the different types of health care providers participating in the Medicare Program and the Medical Assistance Program should be surveyed for compliance with health and safety requirements.

Response: Licensing and Certification (L&C) monitors the State Licensing and Federal Certification requirements in accordance with state and federal statute/regulations. In the annual federal budget HCFA does provide percentage guidelines for certain categories of federal certification surveys where fund or staffing is limited for the federal fiscal year. HCFA has the expectation that the program attempt to meet the appropriate certification timeframes over the course of two to three fiscal years when these limitations occur. Additionally, there is an expectation that the program perform all initial and compliant surveys.

The L&C program will work with HCFA during the development of the federal budget in an attempt to clarify the timelines for certification survey requirements.

Finding 10:

Non-Compliance With Certain Federal Requirements

- a. The Legal Services Unit allocated approximately \$267,000 to various programs in November 1991, using percentages based on personal service hours from August 1991. Because the Department did not use the current rates, the unit's costs were not correctly allocated to the programs benefited.
- b. For the quarter ending March 31, 1992, the Department overcharged the State Survey and Certification of Health Care Providers and Suppliers funded by the Health Insurance for Aged and Disabled (Medicare) by \$1,815 and undercharged the Medical Assistance Program (Medicaid) and the State by \$910 and \$905, respectively.
- c. Three vouchers we examined for the WIC program were redeemed before the authorized dates. In addition, departmental records indicate that, for each month of fiscal year 1991-92, vouchers were redeemed before the authorized issue date.
- d. One voucher we examined for the WIC program was not deposited within 60 days of the date of issuance.
- e. For one of the 77 automated Medi-Cal payments we tested, the Department overpaid one provider by \$26. The overpayment occurred because a long-term care provider billed Medi-Cal at its regular daily rate while holding a bed open for a patient who had been temporarily moved to a hospital.

Recommendation: The Department should improve its compliance with federal requirements.

Response: a. DHS concurs that it did not get the updated Office of Legal Services allocation factors included in its accounting system allocation base during November 1991. Since then, a procedure has been implemented where by there is a monthly check off list of distribution factors that must be included in the allocation process prior to month end closing of the accounting system. We believe this procedure will assure the accuracy of cost allocations.

b. The L&C program found the federal guidelines difficult to administer and made efforts to work with HCFA to simplify the process to a one-third Medicare, one-third Medicaid reimbursement ratio similar to other certification functions and billed accordingly. Since this issue has not been resolved, the program will correct the expenditure report and bill in accordance with the September 10, 1991 guidelines unless it receives written guidance from HCFA modifying the funding ratio.

c. Voucher packets are issued one or two months in advance by the participant's local agency. The agency issuing the vouchers instructs the participant on their proper redemption and not to redeem them prior to the issuance date. In addition, vendors are educated through the WIC Vendor Education Program on the proper voucher redemption process. The WIC program currently contracts with the State Treasurer's Office to randomly review vouchers prior to payment. Currently, approximately 50,000 vouchers are reviewed per month.

If during the review process vouchers redeemed prior to the issuance date are found, the vouchers are returned to the bank unpaid and the value of the voucher recovered. We have found that the vouchers which are redeemed prior to the authorized date represent less than .5 percent of the total vouchers processed through the system.

The administrative cost to review each individual voucher would be prohibitive as the WIC program processes over 2.7 million vouchers each month. The public funds expended in such an effort would not justify the results and could be better spent in other program areas. Vendor and participant education will be made to place additional emphasis on the proper procedures to follow when a participant redeems and a vendor accepts vouchers in exchange for approved food items.

d. The Department operates the WIC voucher redemption system in accordance with federal and state administrative requirements to the maximum extents possible. The Department has an ongoing program to minimize the incidence of such errors. Vendors are required to attend Vendor Education classes every two years and are advised that vouchers submitted beyond the 60 day limit will be returned unpaid. In addition, the State Treasurer's Office continues to scan all returned vouchers and reject any that are being redeemed beyond the 60 day limit. The vouchers are returned unpaid to the vendor involved.

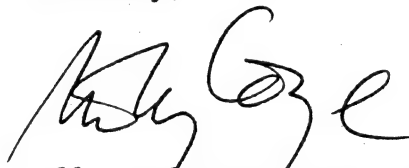
Mr. Kurt R. Sjoberg
Page 9
November 12, 1992

- e. The payment error detected in the audit was a billing by a long term care facility for "bed-hold" accommodation (procedure code 64) for seven (7) days while the patient was under acute care in an inpatient hospital utilizing the "bed occupied" code (procedure code 62). The claim properly suspended as a possible duplicative of the inpatient hospital claim but was overridden and paid at the higher rate in error. The overpayment was \$26.46.

A comprehensive review of all the billings on this patient revealed a second similar overpayment of \$30.24 for an eight day inpatient hospitalization. Both the overpayments have been recovered. In addition, claims examiners have been briefed to avoid any similar mispayments.

If you should have any questions, please contact Mr. Joseph P. Munso, Deputy Director, Administration, Department of Health Services, at 657-3054.

Sincerely,



Molly Joel Coye, M.D., M.P.H.
Director

cc: Mr. Russell S. Gould, Secretary
Health and Welfare Agency
1600 9th Street, Room 400
Sacramento, CA 95814



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

November 3, 1992

Management Letter X-224

Carl Covitz, Secretary
Business, Transportation
and Housing Agency
801 K Street, Suite 1918
Sacramento, California 95814-3520

Dear Mr. Covitz:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the Department of Housing and Community Development's (department) administration of federal programs. We noted certain deviations from federal regulations, which are designed to protect the public's resources. The following comments and recommendations are intended to improve the administration of federal programs.

On November 3, 1992, my staff met with Jackie Kennedy, D.R. Reetz, and other department officials to discuss weaknesses in the department's administration of the federal Community Development Block Grant and the Section 8 Rental Certificate Program (Federal Catalog Nos. 14.228 and 14.857) and recommendations to resolve these weaknesses. The following is a summary of the items discussed during the meeting.

Item 1. **Overspending of Federal Funds for the Costs of Administering the Community Development Block Grant**

Finding: For fiscal year 1991-92, the department spent \$619,076 of federal funds in administering the Community Development Block Grant (CDBG). This amount was \$42,536 more than the \$576,540 that it was allowed to spend for this purpose.

Criteria The United States Code, Title 42, Section 5306(d)(3)(A), allows state-level expenditures for administrative costs of \$100,000 plus 2 percent of the grant amount.

Recommendation: The department should reimburse the appropriate federal account as soon as practical.

Item 2. **Required Reports Not Always Obtained From Grantees**

Finding: In a sample of ten CDBG grantees who were required to submit to the department 24 quarterly narrative reports during fiscal year 1991-92, five grantees failed to submit 9 reports. In addition, five grantees were between one and 59 days late in submitting quarterly reports. Finally, as of October 13, 1992, one grantee had not submitted the annual grantee performance report due on July 31, 1992. Late or unsubmitted reports reduce the department's ability to assist grantees in resolving problems and to promptly detect inappropriate activities.

We reported a similar weakness in our financial audit for fiscal year 1989-90.

Criteria: The Code of Federal Regulations, Title 24, Section 85.40, requires a state that administers CDBG funds to monitor grantees' performance. In addition, the California Code of Regulations, Title 25, Section 7108(e), requires that grantees submit to the department quarterly reports no later than 30 days after the end of the quarter. Further, the department's Grant Management Manual requires grantees to submit an annual performance report no later than July 31 of each year.

Recommendation: The department should ensure that grantees submit their quarterly narrative reports and their annual performance reports by the required due dates.

Item 3. **Slow Disbursement of Federal Funds for the Section 8 Rental Certificate Program**

Finding: We reviewed the disbursement of approximately \$2.3 million of Section 8 Rental Certificate Program

(RCP) funds disbursed in June 1992. Of this amount, approximately \$1.6 million had been requisitioned by the department and received in the state treasury from one to four months before it was disbursed to subrecipients. According to the RCP manager, these delays occurred because the State Controller's Office would not release warrants payable to subrecipients until the department amended its contracts with them.

Criteria: According to the United States Department of the Treasury, Circular 1075, Section 205.4, the timing and amount of cash advances to a recipient organization must be as close as administratively feasible to the actual disbursements by that organization.

Recommendation: The department should ensure its contracts with program subrecipients are current and support the amounts payable to the subrecipients before requisitioning funds from the federal government.

Item 4. **Lack of Documentation To Support the Balance Sheet Report for the Section 8 Rental Certificate Program**

Finding: The department could not produce support for or demonstrate the accuracy of the data in its Balance Sheet report (HUD-52595) for the RCP. Without such information, the federal Department of Housing and Urban Development could have difficulty in evaluating the department's financial management of the RCP.

Criteria: Circular A-102, Subpart C, of the federal Office of Management and Budget, requires states to account for grant funds in accordance with state laws and procedures. The California State Administrative Manual, Section 20014, requires agencies receiving federal funds to reconcile federal financial reports with official accounting records.

Recommendation: The department should reconcile its Balance Sheet report with its accounting records.

Item 5.

Weaknesses in Control Over the Revolving Fund

Finding:

The department has weaknesses in control over its revolving fund. For fiscal year 1991-92, we noted the following deficiencies:

- The department did not promptly request reimbursement for its revolving fund. As of June 30, 1992, the department had 62 unreimbursed travel, expense, and salary advances that had been outstanding for more than 60 days. According to the department's records, these unreimbursed advances totaled approximately \$397,000 and included approximately \$364,000 that was part of one advance made from the revolving fund in fiscal year 1989-90.
- The department improperly used its revolving fund to pay for certain items. For 5 of the 24 revolving fund payments we reviewed, the department made payment by revolving fund check rather than using the normal claims processing procedure through the State Controller's Office. Improper use of the revolving fund circumvents state controls over disbursements and could result in a misuse of state funds.

We reported similar weaknesses in the department's control over the revolving fund in our audit for fiscal year 1989-90. Although weaknesses still exist, the department has significantly improved its management of its revolving fund since our last audit.

Criteria:

The State Administrative Manual, Section 8047, requires that state agencies schedule claims for reimbursement of office revolving funds promptly. In addition, the State Administrative Manual, Sections 8100 et seq., specifies permissible uses of revolving funds.

Recommendation:

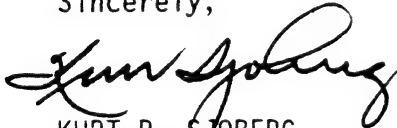
The department should immediately file a claim with the State Board of Control seeking reimbursement to

Carl Covitz, Secretary
Business, Transportation
and Housing Agency
Management Letter X-224
Page 5

its revolving fund for the outstanding balance of approximately \$364,000 on an advance it made in fiscal year 1989-90. The department should also immediately schedule claims or seek reimbursement for other advances made from the revolving fund that have been outstanding for more than 60 days. Finally, the department should restrict its use of the office revolving fund to the permissible uses set forth in the State Administrative Manual.

If you have a different perception of any of the items summarized above, please let me know by November 11, 1992. We may include these items in the statewide management letter that we will submit to the Department of Finance. Thank you for your cooperation.

Sincerely,



KURT R. STOBERG
Auditor General (acting)

cc: Tim Coyle, Director
Department of Housing and
Community Development



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

November 10, 1992

Management Letter X-082

Honorable Daniel E. Lungren
Attorney General
Department of Justice
1515 K Street, Suite 511
Sacramento, California 95814

Dear Attorney General Lungren:

As part of our annual financial and compliance audit of the State of California for fiscal year 1991-92, we assessed the Department of Justice's administration of a portion of the Drug Control and System Improvement--Formula Grant (Federal Catalog No. 16.579). Specifically, we tested the Department of Justice's administration of two components of the grant, the Crackdown Cocaine Task Force Program and the Bureau of Narcotic Enforcement Field Augmentation Program.

For these programs, we performed that applicable audit procedures included in the OMB Compliance Supplement for Single Audits of State and Local Governments. With respect to the items we tested, the results of our procedures disclosed no instances of noncompliance.

If you or your staff have any questions, please contact, Curt Davis, deputy auditor general, at (916) 445-0255.

Sincerely,

KURT R. SJOBERG
Auditor General (acting)

cc: Clark Bennett, Director
Division of Administration
Department of Justice

Way J. Lee, Audit Coordinator
Internal Control and Audits Program
Department of Justice



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

October 6, 1992

Management Letter X-445

Russell Gould, Secretary
Health and Welfare Agency
1600 Ninth Street, Room 460
Sacramento, California 95814

Dear Mr. Gould:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the Department of Mental Health's (department) administration of federal programs. We noted one deviation from federal regulations designed to protect the public's resources. The following comments and recommendation are intended to improve the administration of the federal programs.

On September 10, 1992, my staff met with Ms. Linda Powell, Mr. Stan Nielsen, and Ms. Lucy Miller to discuss the one weakness in the department's administration of the federal Alcohol and Drug Abuse and Mental Health Services Block Grant (Federal Catalog No. 93.992). We also discussed the State Legalization Impact Assistance Grant (Federal Catalog No. 93.025). We also observed the weakness during our financial and compliance audit of the department in fiscal year 1990-91. The following is a summary of the item discussed during the meeting:

Item

Delayed Cash Payments to Subrecipients

Finding:

The department did not make prompt initial cash payments to subrecipients of the Alcohol and Drug Abuse and Mental Health Services Block Grant (ADAMHA grant). Although the department mailed the ADAMHA grant renewal applications to the subrecipients in late April 1991, the department did not mail the first payments to the subrecipients until January 1992, more than six months after the start of the state fiscal year. During these first six months, the subrecipients reported that they spent \$9,559,233 for the ADAMHA grant without receiving payments for services provided.

Russell Gould, Secretary
Health and Welfare Agency
Management Letter X-445
Page 2

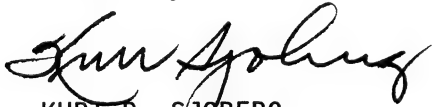
After providing the first payment in January 1992, the department improved its timeliness for paying subrecipients. In April 1992 and June 1992, the department made payments to subrecipients for their expenditures.

Criteria: The Code of Federal Regulations, Title 31, Section 205.4(a), requires that cash advances to a recipient be timed to match the actual, immediate cash requirements of the recipient in completing the project. The timing and amount of the cash advances should be as close as is administratively feasible to the actual disbursements by the recipient for program costs. In addition, Section 205.4(e) requires that cash advances made by primary recipients to subrecipients conform substantially to the same requirements.

Recommendation: The department should improve its procedures so that the department makes initial payments to the subrecipients within a reasonable period of time after the start of the fiscal year.

If you have a different perception of the item summarized above, please contact me by October 14, 1992. We may include the above item in the statewide management letter that we will submit to the Department of Finance. Thank you for your cooperation.

Sincerely,


KURT R. SJOBERG
Auditor General (acting)

cc: Carl E. Rauser, Chief Deputy Director
Department of Mental Health

DEPARTMENT OF MENTAL HEALTH

1600 - 9TH STREET
SACRAMENTO, CA 95814



(916) 654-2309

October 15, 1992

Kurt R. Sjoberg
Auditor General (Acting)
Office of the Auditor General
600 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

Thank you for the opportunity to respond to your Management Letter X-445 concerning the ADAMHA Block Grant Findings for Fiscal Year 1991-92. You expressed concern about delays in our disbursement of Block Grant funds to subrecipients. We concur in your findings, and we have corrected the conditions which led to the delays.

Recent legislation within California mandated a new system of allocating funds for local assistance. Fiscal Year 1991-92 was a transition year for us and for the counties. We believe that the transition is now complete, and we expect to make more timely disbursement of Block Grant funds to subrecipients.

In addition, we experienced turnover and illness of key staff during the difficult transition period. We have since filled the vacancy and provided cross training to assure the availability of backup staff to facilitate future disbursements.

We appreciate your interest in this issue. If you wish additional information, please contact Robert Florida at (916) 654-2392 or Stan Nielsen at (916) 654-3592.

Sincerely,

A handwritten signature in dark ink, reading "Lynn E. Whetstone", is written over a horizontal line.

LYNN E. WHETSTONE
Chief Deputy Director



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

November 2, 1992

Management Letter X-886.A

Andrew Poat, Undersecretary
State and Consumer Services Agency
915 Capitol Mall, Room 200
Sacramento, California 95814

Dear Mr. Poat:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the compliance of the Public Employees' Retirement System (PERS) with federal and state regulations in administering the Statewide Cost Allocation Plan (SWCAP) and with state regulations in administering the Prorata Allocation Plan (Prorata). We noted certain deviations from federal and state regulations, that are designed to protect the public's resources. The following comment and recommendation is intended to improve the administration of the SWCAP and the Prorata.

On October 30, 1992, my staff met with Richard Anderson and David Mariani of the PERS to discuss a weakness in the PERS's administration of the SWCAP and Prorata and a recommendation to resolve the weakness. The following is a summary of the item discussed during the meeting.

Item

Error in Expenditure Data Reported to the Department of Finance

Finding:

The PERS provided the Department of Finance with inaccurate expenditure data for the health benefits for retired annuitants for fiscal year 1991-92. The Department of Finance used this expenditure data to compute both SWCAP and Prorata costs. The PERS understated the SWCAP expenditures for health benefits for retired annuitants by approximately \$694,000 and understated the prorata expenditures by approximately \$667,000. Approximately \$585,000 of each of these amounts resulted from errors in identifying costs

of District Agriculture Association employees. The remaining understatements resulted from miscellaneous clerical errors. The understatements could result in undercollections from the federal government of approximately \$57,000 and undercollections from the State's special funds of approximately \$229,000.

We observed a similar weakness during our financial audit for fiscal year 1990-91. In a letter dated August 28, 1991, the PERS responded that it had developed a method for accurately identifying the number of district agriculture annuitants it uses to calculate the expenditures for this group, and it also stated that it had reported the actual 1990-91 expenditures to the Department of Finance in accordance with its new method. However, because of the nature of the SWCAP and Prorata calculations, in this audit we tested actual 1989-90 expenditures used to determine the 1991-92 SWCAP and Prorata charges. We will test the actual 1990-91 expenditures in our 1992-93 audit.

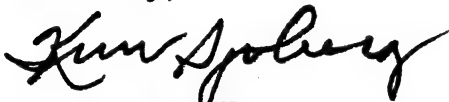
Criteria: The State Administrative Manual, Section 8752, requires state agencies to recover full costs for goods or services provided for other state agencies.

Recommendation: The PERS should report the corrected expenditures for the health benefits for retired annuitants to the Department of Finance so that the Department of Finance can include the adjustments in the SWCAP and Prorata for fiscal year 1993-94. Further, the PERS should ensure that the expenditures it reports to the Department of Finance for health benefits for retired annuitants are accurate.

Andrew Poat, Undersecretary
State and Consumer Services Agency
Management Letter X-886.A
Page 3

If you have a different perception of the item summarized above, please let me know by November 9, 1992. We may include this item in the statewide management letter that we will submit to the Department of Finance at a later date. Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kurt Sjoberg".

KURT R. SJOBERG
Auditor General (acting)

cc: Robert Aguallo, Assistant Executive Officer
Public Employees' Retirement System



Memorandum

Date: November 9, 1992

File No.:

California Public Employees' Retirement System

To: Kurt R. Sjoberg
Auditor General (Acting)
660 J Street, Suite 300
Sacramento, California 95814

From: Board of Administration
Lincoln Plaza, 400 P Street
Sacramento, CA 95814

Subject: STATEWIDE COST ALLOCATION PLAN (SWCAP) - MANAGEMENT LETTER
X-886.A

Item: Error in Expenditure Data Reported to the
Department of Finance

Response: We agree with the recommendation and will report the corrected expenditures to the Department of Finance upon their request. The allocation of the total expenditures for district agricultural annuitants was not correct. This was due to a clerical error in providing the number of these retirees. PERS has developed a method for identifying the proper number of enrollees in order to more accurately calculate the expenditures for this group. We have also developed a spreadsheet to more accurately track individual expenditures to the various retirement programs and have reported the actual 1991/92 expenditures to the Department of Finance in accordance with the recommendation.

Robert Aguallo
Assistant Executive Officer
Financial and Administrative Services

RA:pc

cc: Andrew Poat, Under Secretary
State and Consumer Services Agency

Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

October 29, 1992

Management Letter X-642

Warren Fox, Executive Director
California Postsecondary Education Commission
1303 J Street, 5th Floor
Sacramento, California 95814

Dear Mr. Fox:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the California Postsecondary Education Commission's (commission) administration of the federal Eisenhower Mathematics and Science Education -- State Grants program (Federal Catalog No. 84.164). We noted certain deviations from federal regulations, which are designed to protect the public's resources. The following comments and recommendation are intended to improve the administration of the federal program.

On October 27, 1992, my staff met with Bobbie Swanson, Linda Barton White, Richard Komatsu, and Ailene Nishida of the commission to discuss the weakness we found in the commission's administration of the federal program and the recommendation to resolve this weakness. The following is a summary of the item discussed during the meeting.

<u>Item</u>	<u>Lack of a Formal Process for Monitoring Grantees Participating in the Eisenhower Mathematics and Science Education--State Grants Program</u>
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Finding:	The commission does not have a formal process for conducting reviews of grantees under the Eisenhower Mathematics and Science Education--State Grants program. According to the program manager, commission staff do perform limited monitoring visits of grantees. These visits consist of observing activities and interviewing grant staff and participants. However, the commission has not formalized how monitoring will be recorded, and has not documented how compliance and program areas will be reviewed. Also, the commission has not
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Warren Fox, Executive Director
California Postsecondary Education Commission
Management Letter X-642
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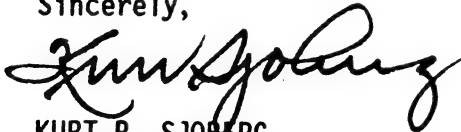
documented how corrective action will be ensured when problems are found. Instead, commission staff resolve problems on a case-by-case basis and implement any necessary corrective action. Without a formal monitoring process, the commission lacks assurance that grantees are complying with federal requirements and that they are achieving project goals. Also, the commission requires that grantees submit program and fiscal reports each quarter. However, for one of the four grantees we reviewed who were required to submit these reports, the commission had not yet received the reports for the quarters ending December 31, 1991; March 31, 1992; and June 30, 1992.

Criteria: The Code of Federal Regulations, Title 34, Section 80.40(a), requires the State to monitor activities to ensure that grantees comply with applicable federal requirements and achieve performance goals.

Recommendation: The commission should develop a formal monitoring process that defines how monitoring will be documented, how compliance and program areas will be reviewed, and how corrective action will be ensured when problems are found. Also, the commission should promptly follow up on grantees who are late in submitting their required reports.

If you have a different perception of the item summarized above, please let me know by November 5, 1992. We may include this item in the statewide management letter that we will submit to the Department of Finance at a later date. Thank you for your cooperation.

Sincerely,



KURT R. SJOBERG
Auditor General (acting)

cc: Bobbie Swanson, Assistant Director
Division of Administration
California Postsecondary Education Commission



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(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

October 6, 1992

Management Letter X-516

Russell Gould, Secretary
Health and Welfare Agency
1600 Ninth Street, Room 460
Sacramento, California 95814

Dear Mr. Gould:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the Department of Rehabilitation's (department) administration of federal programs. We noted certain deviations from federal regulations designed to protect the public's resources. The following comments and recommendations are intended to improve the administration of federal programs. You should be particularly aware that the department's federal financial reports were not accurate. Specifically, the department overstated the federal share of disbursements for the Basic Support Grant. The overstatement was included in the federal cash transaction report for the quarter ending June 30, 1992. In addition, the department's financial status report for the same period contained minor clerical errors. We observed a similar weakness during our financial audit of the department for fiscal years 1987-88, 1988-89, and 1989-90.

On August 10, 1992, my staff met with Edna Larsen, chief of the department's internal audits, and Erika Behling, assistant chief, accounting section, to discuss weaknesses in the department's administration of the federal U.S. Department of Education Basic Support program (Federal Catalog No. 84.126) and recommendations to resolve these weaknesses. The following is a summary of the items discussed during the meeting.

Item

Inaccurate Federal Financial Reports

Finding:

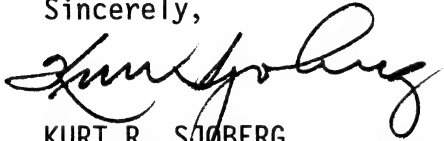
The department overstated the federal share of disbursements for the Basic Support Grant (grant) for fiscal year 1990-91. The overstatement was included in the federal cash transaction report for the quarter ending June 30, 1992. The total amount spent for the grant included in the cash

Russell Gould, Secretary
Health and Welfare Agency
Management Letter X-516
Page 3

Recommendation: The department should ensure that its financial reports contain accurate and reliable information.

If you have a different perception of the item summarized above, please let me know by October 14, 1992. We may include these items in the statewide management letter that we will submit to the Department of Finance. Thank you for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Kurt Sooberg", written in a cursive style.

KURT R. SOOBERG
Auditor General (acting)

cc: William Tainter, Director
Department of Rehabilitation

DEPARTMENT OF REHABILITATION

830 K Street Mall
Sacramento, CA 95814

Phone (916) 445-3971
TDD (8) 485-3971



October 13, 1992

Mr. Kurt R. Sjoberg
Acting Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:


This is in response to your letter (Management Letter X-516 dated October 6, 1992) regarding your financial and compliance audit of the Department of Rehabilitation's administration of the Basic Support program for the fiscal year that ended June 30, 1992.

Item Inaccurate Federal Financial Reports

Response The overstatement of expenditures in the June 30, 1992 Federal Cash Transaction Report (PMS 272) was corrected in the July 1992 report. The PMS 272 for June 30, 1992 was due July 25, 1992 and the Financial Status Report (169) that is used to complete the PMS 272 was due July 31, 1992. The expenditure amount reported on the PMS 272 was taken from a worksheet since the 169 was not yet completed. The federal and recipient share of expenditures was reported instead of the federal share only. In the future, the department will review the PMS 272 more carefully prior to submitting.

As always, we appreciate the professionalism of your audit team. If you have any questions or require additional information, please feel free to call.

Sincerely,


WILLIAM TANTER
Director

WT:TJB:dee



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(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General
660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

November 2, 1992

Management Letter X-518

Russell Gould, Secretary
Health and Welfare Agency
1600 Ninth Street, Room 460
Sacramento, California 95814

Dear Mr. Gould:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the Department of Social Services' (department) administration of federal programs. We noted certain deviations from federal regulations and from the State's system of internal controls. Both regulations and internal controls are designed to protect the public's resources. The following comments and recommendations are intended to improve the department's administration of the federal programs and its internal controls.

On October 30, 1992, my staff met with Jerry Demorest and other staff of the department to discuss weaknesses in the department's administration of the federal Food Stamps program (Federal Catalog No. 10.551), State Administrative Matching Grants for Food Stamps program (Federal Catalog No. 10.561), Disaster Assistance program (Federal Catalog No. 83.516), Family Support Payments to States--Assistance Payments program (Federal Catalog No. 93.020), Job Opportunities and Basic Skills Training program (Federal Catalog No. 93.021), Child Support Enforcement program (Federal Catalog No. 93.023), State Legalization Impact Assistance Grants program (Federal Catalog No. 93.025), Refugee and Entrant Assistance--State Administered program (Federal Catalog No. 93.026), Foster Care--Title IV-E program (Federal Catalog No. 93.658), Adoption Assistance program (Federal Catalog No. 93.659), Social Services Block Grant program (Federal Catalog No. 93.667), and Social Security--Disability Insurance program (Federal Catalog No. 93.802), and the department's internal controls. During the meeting, my staff also discussed recommendations to resolve these weaknesses. The following is a summary of the items discussed during the meeting.

Item 1.

Improvement in Cash Management

Finding:

The department has improved its cash management system for requesting federal funds for the federal share of the department's administrative and local assistance expenditures. In fiscal year 1990-91, the State lost approximately \$144,300 in potential interest income. For fiscal year 1991-92, the State lost approximately \$46,800 in potential interest income. Specifically, we noted the following conditions:

- The department was eight months late in requesting federal funds to reimburse the State for administrative expenditures incurred during fiscal year 1991-92 for the Employment Services program. The department initially pays the State's portion of these administrative expenditures from the department's general fund and subsequently requests federal funds from the Employment Development Department to reimburse the department's general fund. As a result of not promptly requesting federal funds, the State lost approximately \$38,900 in interest income.
- The department did not promptly request federal funds to reimburse the State for expenditures incurred during fiscal year 1991-92. The department initially pays In-Home Supportive Service expenditures from the department's general fund and subsequently requests federal funds from the Social Services Block Grant to reimburse the general fund. Allowing the department five working days to request and receive reimbursement from the date the department initially paid the expenditures or from the date the department was subsequently notified that federal funds were available, the department was one to five days late in receiving reimbursement for the transactions we tested. As a result, the State lost approximately \$7,900 in interest income.

We reported similar weaknesses in our financial audits for fiscal years 1985-86 through 1990-91. In its response to the audit for fiscal year 1990-91, the department said it will continue to look at improving its procedures to minimize the amount of time that state funds are used "in lieu of" disbursing federal funds.

Criteria: The State Administrative Manual, Section 0911.4, requires state agencies to secure prompt reimbursement from grant funds for goods and services provided.

Recommendation: The department should promptly request federal funds to reimburse its general fund for federally eligible expenditures.

Item 2.

Delays in Disbursing Federal Monies

Finding: During fiscal year 1991-92, the department maintained balances of federal monies that exceeded its immediate cash needs. These monies are used to pay for the federal government's share of the department's expenditures. Maintaining excess cash may result in the termination of advance financing by the federal government. During our audit, we noted the following:

- The department did not properly analyze its cash on hand for the Job Opportunities and Basic Skills program when requesting additional federal monies. As a result, the department held an average monthly balance of \$496,000 in excess federal monies, ranging from approximately \$116,000 to \$564,000, between March 31, 1991, and May 31, 1992.
- The department did not ensure that state spending authority, necessary for disbursing federal monies, was sufficient before it requested and received approximately \$5 million in federal monies for the Foster Care program. The department did not receive spending

authority until 13 days after it had received the federal monies.

Criteria: The Code of Federal Regulations, Title 31, Section 205.4(a), requires that the timing and amount of federal cash advances be as close as administratively feasible to the actual disbursement by the recipient organization.

Recommendation: The department should ensure that its requests for federal monies are limited to its immediate cash needs.

Item 3. **Failure To Recover Cash Advances for the Refugee and Entrant Assistance--State Administered Program**

Finding: The department failed to recover cash advances it made to one contractor participating in the Refugee and Entrant Assistance--State Administered program. As of October 16, 1992, the department failed to recover approximately \$111,000 advanced to the contractor that it should have recovered in October, November, and December 1991. When subrecipients, in this case the contractor, maintain excess cash, the federal government could end advance financing.

Criteria: The Code of Federal Regulations, Title 31, Section 205.4(e), requires that advances by primary recipients to subrecipients be limited to the minimum amounts needed and timed to meet the actual, immediate cash requirements of the subrecipient in carrying out the purpose of the program.

Recommendation: The department should ensure that subrecipients do not maintain excess cash balances.

Item 4. **Insufficient Monitoring of Federal Programs**

Finding: The department suspended its monitoring of the counties participating in the refugee cash assistance and unaccompanied minor element of the Refugee and Entrant Assistance--State Administered

program during fiscal year 1991-92. Further, the department provided us with documentation of only one monitoring review of counties participating in the State Legalization Impact Assistance Grants program during fiscal year 1991-92. The purpose of monitoring is to ensure that the counties properly determine a recipient's eligibility to participate in the program and that the counties serve the recipient for the time period allowed and in the proper amount. Also, in the case of the unaccompanied minor element, monitoring ensures that counties develop and implement an appropriate plan for the care and supervision of services provided to each unaccompanied minor. Without monitoring, the State cannot ensure that the counties properly administer federal programs.

Criteria:

The Code of Federal Regulations, Title 45, Section 74.81, requires the department to monitor the performance of grant supported activities and to review each program, function, or activity to ensure that adequate progress is made towards achieving the goals of the grant. The Code of Federal Regulations, Title 45, Section 400.117(b), states that if a state arranges for the care and services of unaccompanied minors through a public or private agency, it must retain oversight responsibility for the appropriateness of the unaccompanied minor's care.

The Code of Federal Regulations, Title 45, Section 92.40, requires the department to monitor activities of the State Legalization Impact Assistance Grants program to ensure compliance with applicable federal requirements.

Recommendation:

The department should conduct the required monitoring of the Refugee and Entrant Assistance--State Administered program and the State Legalization Impact Assistance Grants program.

Item 5. **Lack of Control Over Disbursements for the Child Support Enforcement Program**

Finding: The department lacked control over its disbursements for the Child Support Enforcement program. We reviewed four county claims paid during August 1991 and February 1992 that did not contain audit approvals from the department's Fiscal Policy Unit. If the department does not audit the county claims, it has no assurance these claims are accurate.

Criteria: The Code of Federal Regulations, Title 45, Section 74.61(c), requires that effective control and accountability be maintained for all grant cash. It requires recipients to adequately safeguard its cash and ensure that it is used solely for authorized purposes. The California Government Code, Section 13401, requires state agencies to maintain an effective system of internal accounting and administrative control to minimize error.

Recommendation: The department should resume audits of county administrative claims to ensure claims are accurate.

Item 6. **Federal Financial Reports Not Reconciled With Accounting Records**

Finding: The department did not reconcile its federal financial reports prepared during fiscal year 1991-92 with departmental accounting records. Failure to reconcile federal financial reports with the accounting records can result in misstatements of claims that may go undetected.

We reported a similar weakness in our financial audits for fiscal years 1985-86 through 1990-91. The department is developing automated processes designed to ensure that the data contained in federal reports are consistent with the accounting records maintained in the California State Accounting and Reporting System. The department estimates it will complete this process during fiscal year 1992-93.

Criteria: The Office of Management and Budget, Circular A-102 revised, Subpart C, paragraph 883(b)(1), requires grantee financial management systems to provide accurate, current, and complete disclosure of each grant program. Further, the State Administrative Manual, Section 20014, requires agencies receiving federal funds to reconcile federal financial reports with the official accounting records and retain all supporting schedules and worksheets for a minimum of three years.

Recommendation: The department should implement a reconciliation system so that it can reconcile its federal financial reports with departmental accounting records.

Item 7. **Delays in Collecting Disallowed Costs or Adjusting for Incorrectly Claimed Costs**

Finding: The department did not promptly collect disallowed costs from the county welfare departments. Before January 1, 1992, the department contracted with the Division of Audits of the State Controller's Office to conduct audits of the administrative expenditure claims records of county welfare departments. While conducting these audits, the State Controller's Office was responsible for determining whether county welfare departments adhered to regulations and instructions set forth by the federal government and the department. The department is responsible for analyzing and resolving any audit protest between the county welfare departments and the State Controller's Office. In addition, the department is responsible for collecting from the county welfare departments disallowed costs that the State Controller's Office identified as a result of the audits.

We reviewed 10 of the 100 audits in the "application process." In the application process, staff determine, among other things, the type of funding, fiscal period, and program to which the disallowed costs or incorrectly claimed costs relate. After

allowing time for the department to resolve any audit protest or appeal and place the item in the application process, we found one item was in the application process for approximately three years before it was completed. The other nine items have been in the application process from approximately eight months to approximately four years without being completed. For the ten test items, the disallowed costs totaled approximately \$1.6 million and incorrectly claimed costs totaled approximately \$1.8 million. Because nine of the ten items are still in the application process, we are not able to determine what portion of the \$1.6 million in disallowed costs applies to federal funding.

We reported similar weaknesses in our audits for fiscal years 1985-86 through 1990-91. The department responded to our audit for fiscal year 1990-91 that its Administrative Claims Unit lost five of nine audit staff from July 1, 1991 through October 30, 1991. It also said it had filled the positions by February 1992, and staff are being trained to complete the very technical tasks assigned to the unit.

Criteria: The Code of Federal Regulations, Title 45, Section 74.61(h), requires each state to follow a systematic method to ensure prompt and appropriate resolution of audit findings and recommendations.

Recommendation: The department should promptly offset the disallowed costs of the county welfare departments against the current county claims or adjust for incorrectly claimed costs to ensure that excess funds are not held by the county welfare departments.

Russell Gould, Secretary
Health and Welfare Agency
Management Letter X-518
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If you have a different perception of any of the items summarized above, please let me know by November 9, 1992. We may include these items in the statewide management letter that we will submit to the Department of Finance at a later date. Thank you for your cooperation.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kurt R. Sjoberg".

KURT R. SJOBERG
Auditor General (acting)

cc: Eloise Anderson, Director
Department of Social Services

DEPARTMENT OF SOCIAL SERVICES

744 P Street, Sacramento, CA 95814



November 9, 1992

Kurt R. Sjoberg
Auditor General (Acting)
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

OFFICE OF THE AUDITOR GENERAL'S (OAG) REPORT OF THEIR SINGLE
AUDIT OF THE CALIFORNIA DEPARTMENT OF SOCIAL SERVICES (CDSS) FOR
THE FISCAL YEAR ENDING JUNE 30, 1992; "OAG MANAGEMENT
LETTER X-518"

The Secretary, Health and Welfare Agency, has asked me to
review and provide CDSS comments regarding the above named OAG
management letter. Our response to the audit findings and
recommendations contained in this letter are attached.

We appreciate the many opportunities you have provided us
to furnish information and respond to the auditors' findings
during the audit.

If you have any questions regarding our comments, please
contact me at (916) 657-2598, or have your staff contact
Mr. Jarvio Grevious, Deputy Director, Administration Division, at
(916) 657-3266.

Sincerely,


ELOISE ANDERSON
Director

Attachment

CALIFORNIA DEPARTMENT OF SOCIAL SERVICES (CDSS) COMMENTS

Following are CDSS comments in response to the audit findings and recommendations contained in Office of the Auditor General's (OAG) MANAGEMENT LETTER X-518/SINGLE AUDIT OF THE CALIFORNIA DEPARTMENT OF SOCIAL SERVICES FOR STATE FISCAL YEAR (SFY) 1991-92.

Item 1. Improvement in Cash Management

OAG

Recommendation: The department should promptly request federal funds to reimburse its general fund for federally eligible expenditures.

CDSS Comments: The CDSS concurs with this recommendation and the related audit findings. During SFY 1991-92, the CDSS made significant improvements in the processing of federal reimbursements for the In-Home Supportive Services (IHSS) program. The CDSS acknowledges the importance of reimbursing state funds as soon as it is administratively feasible to do so, but five days is not always possible. We process over 400 federal fund draws annually for more than \$3 billion. Usually, when the CDSS receives the grant awards, there are other immediate disbursement needs for federal funds which preempt the immediate repayment of IHSS state funds. Unfortunately, staffing resources don't allow every situation to get priority and the inconsistency (of issuance dates and amounts) of incoming quarterly grant awards makes a standardized processing schedule impossible.

The CDSS concurs with the finding regarding the scheduled reimbursement from Employment Development Department (EDD) for state only employment services expenditures. The CDSS contract with the EDD for SFY 1991-92 was not approved by the State Department of General Services until January 16, 1992. In addition, the quarterly county Administrative Expense Claim (AEC) process had not identified a sufficient level of state only costs that were required to claim federal financial participation. This necessitated a claiming adjustment that occurred

on the March 1992 quarterly AEC. Procedures are now in place to identify and invoice these reimbursable costs quarterly and remedy previous delays.

Item 2.

Delays in Disbursing Federal Monies

OAG

Recommendation: The department should ensure that its requests for federal monies are limited to its immediate cash needs.

CDSS Comments: The CDSS concurs with the audit findings regarding the JOBS program. The CDSS is trying to achieve closer management and expeditious recycling of excessive federal cash on hand. However, the CDSS contends that our "cash on hand" at any given time, is not totally derived from excessive draws of federal funds for immediate needs. CDSS "cash on hand" may also be derived from the recoupment of advances to the counties. The recoupment of funds from the counties does not always coincide with the "need" to draw Federal funds for additional disbursements, thus creating "cash on hand" in some instances. The CDSS strives to minimize these instances.

The CDSS concurs with the audit finding regarding the Foster Care program, however much of this condition was beyond our control. The CDSS requested federal funds for the Foster Care program, but was unable to disburse these funds due to the delayed approval of the State Budget Act. The CDSS was operating under the premise that the Budget would be passed in sufficient time to release our Foster Care payment. Consequently, when the Legislature did not meet the Budget deadline, the CDSS was unable to make its scheduled Foster Care payment to the counties.

The CDSS will continue to limit our requests for federal funds to the immediate needs presented at any point in time factoring in any available "cash on hand".

Item 3. Failure to Recoup Cash Advances for the Refugee and Entrant Assistance-State Administered Program

OAG

Recommendation: The department should ensure that sub-recipients do not maintain excess cash balances.

CDSS Comments: The CDSS concurs with this recommendation and the related findings. The Refugee and Immigration Programs Bureau (RIPB) has changed the terms of its contracts to limit advances to the contractor's need for sixty days or 25 percent (%) of the contract allocation, whichever is less. Formerly, the contractor's need for ninety days was allowed. Also, advances will now be recouped from the last quarter of the services period instead of the last quarter of the agreement, because invoices submitted by the contractor near the end of the agreement are sometimes too small to enable us to recoup the total amount due.

Finally, the RIPB has established a tracking system which provides advance notice of when contract period expiration dates occur in each county. This will enable the RIPB to begin timely recoupment where indicated.

Item 4. Insufficient Monitoring of Federal Programs

OAG

Recommendation: The department should conduct the required monitoring of the Refugee and Entrant Assistance State Administered program and the State Legalization Impact Assistance Grants program.

CDSS Comments: The CDSS concurs with the audit finding that we did not monitor Unaccompanied Minor (UM) cases during SFY 1991-92. This was because the department believed that all existing unaccompanied minor cases were monitored the previous year. However, in response to this audit recommendation the CDSS resumed monitoring in November 1992 and we expect to complete the monitoring of all UM cases by the end of SFY 1992-93.

The CDSS concurs with the audit finding that we did not monitor local Refugee Cash Assistance (RCA) program operations during SFY 1991-92. This was because the CDSS had insufficient program resources to complete this activity during SFY 1991-92. However, in response to this audit recommendation, the CDSS resumed monitoring in November 1992, and we expect to monitor RCA program operations in at least one county per month until all refugee impacted counties have been monitored.

The CDSS concurs with the audit finding that we did not monitor local State Legalization Impact Assistance Grants (SLIAG) program operations during SFY 1991-92. This was because a number of SLIAG program staff left the department during our recent state budget crisis. However, in response to this audit recommendation, the CDSS resumed monitoring in November 1992 and we expect to monitor approximately ninety percent of the state's legalized alien caseload by June 30, 1993.

Item 5.

Lack of Control Over Disbursements for the Child Support Enforcement Program

OAG

Recommendation: The department should resume audits of county administrative claims to ensure claims are accurate.

CDSS Comments: The CDSS concurs with this recommendation and the related audit findings. During SFY 1991-92 the CDSS, Administrative Claims Unit (ACU) lost five auditors and was unable to audit the child support claims for three quarters. However, replacement staff were hired by January 1992, and the ACU resumed their audits of Child Support claims starting with the quarter ending March 31, 1992.

Item 6. Federal Financial Reports Not Reconciled With Accounting Records

OAG

Recommendation: The department should implement a reconciliation system so that it can reconcile its federal financial reports with departmental accounting records.

CDSS Comments: The CDSS concurs with this recommendation and the related audit findings. We have developed some automated processes to ensure that data contained in federal financial reports is consistent with the accounting records maintained in CALSTARS and continue to pursue further development of automated processes. Through the use of personal computers and the office automation system, the CDSS anticipates the implementation of a common data base for both the reporting and payment of county assistance costs. The Accounting and Systems Bureau has set milestones to accomplish this objective by July 1, 1993. Currently, county administrative expense data is contained in common data files for CALSTARS coding and Federal Reporting purposes. These enhancements will provide the CDSS with common data files that will be utilized for both the payment and reporting of federal costs representing \$4 billion or over 80% of the CDSS federal budget.

Item 7. Delays in Collecting Disallowed Costs or Adjusting for Incorrectly Claimed Costs.

OAG

Recommendation: The department should promptly offset the disallowed costs of the county welfare departments against the current county claims or adjust for incorrectly claimed costs to ensure that excess funds are not held by the county welfare departments.

CDSS Comments: The CDSS concurs with this recommendation and the related audit findings. Two staff of the ACU completed their training on audit applications as of October 1992. Three staff are now devoting 100 percent of their time to the application of these audits. During the remainder of SFY 1992-93, we project that the number of applications being applied will increase significantly.



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STATE OF CALIFORNIA
Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

October 21, 1992

Management Letter X-798

Dr. Samuel M. Kipp III, Executive Director
California Student Aid Commission
P.O. Box 942845
Sacramento, California 94245-0845

Dear Dr. Kipp:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the California Student Aid Commission's (commission) administration of the U.S. Department of Education grant, Federal Catalog Number 84.032. We noted certain deviations from federal regulations designed to protect the public's resources. The following comments and recommendations are intended to improve the commission's administration of this federal grant.

On October 15, 1992, my staff met with Ms. Becky Stilling and other representatives of the commission to discuss weaknesses in the commission's administration of this federal grant. During the meeting, my staff also discussed recommendations to resolve these weaknesses. The following is a summary of the items discussed during the meeting.

Item 1. **Failure To Ensure That Defaulted Student Loans Met Federal Requirements for Reimbursement**

Finding: The commission did not ensure that all of the defaulted student loans it submitted for reimbursement to the federal government met federal requirements for reimbursement. Before the commission purchases defaulted student loans from lenders, it must ensure the lenders meet the federal requirements for submitting default claims to the commission. Additionally, the commission must meet federal deadlines for paying lenders for defaulted loans and for requesting payment from the federal government. Of the 40 loans purchased by the commission that we reviewed, we found that 6 loans

did not meet one of these federal requirements for reimbursement. We found the following specific problems:

- Of the 6 loans, the commission did not pay 5 lender claims within the required 90 days of the date the lender submitted the default claim. In 4 of the five instances when claims were paid late, the commission paid the lender one to 3 days after the required deadline.

In the fifth instance involving a late claim payment, the commission paid the lender 29 days past the 90-day deadline. In each of our audits of the last four years, we also reported instances when the commission did not pay the lender within the required 90 days.

- For one other loan, the commission's service contractor accepted a default claim the lender had submitted after the required 90-day deadline. The loan was accepted one day after the deadline. We considered the date that the default claim was received by the service contractor as the submission date because the postmark was not available. We noted a similar weakness in our audit for fiscal year 1990-91. Failure to ensure that loans meet federal requirements could jeopardize federal reimbursements.

Criteria:

The Code of Federal Regulations, Title 34, Section 682.406(a), lists the conditions that must be met to qualify a defaulted student loan for federal reimbursement. These conditions include requirements that the commission pay the lender within 90 days of the date the lender submits the claim and that the lender submit the claim within 90 days of the default.

Recommendation:

The commission should ensure that all defaulted student loans it submits for reimbursement to the federal government meet federal requirements.

Item 2.

Insufficient Procedures and Documentation To Ensure
That Bankruptcy, Death, and Disability Claims Met
Federal Reimbursement Requirements

Finding:

The commission did not ensure or could not provide evidence that all bankruptcy, death, and disability claims that it purchased from lenders met federal requirements for reimbursement.

A lender submits a bankruptcy claim to the commission for reimbursement if a borrower files a petition for relief of payment of a student loan with the bankruptcy court. If the student loan is discharged by the bankruptcy court, the commission submits a claim to the federal government for reimbursement. In turn, a lender submits a disability or death claim to the commission if a borrower is determined to be unable to continue loan payments because of a medical disability or death. In these instances, too, the commission submits a claim to the federal government for reimbursement. For a bankruptcy, disability, or death claim to be eligible for federal reimbursement, the commission must follow certain procedures before it pays the lender's claim.

In our review of 20 lenders' bankruptcy claims, we found that, in paying one of these claims, the commission did not follow at least one requirement for federal reimbursement.

Moreover, in our review of 10 lenders' disability claims, we found that in paying one of these claims, the commission did not follow a requirement for federal reimbursement. Finally, in our review of 10 death claims, we could not determine whether one death claim a lender submitted should have been paid because the documentation was not provided to us. Therefore, the commission's payments to lenders for these loans did not meet the federal requirements for reimbursement. We found the following specific problems:

- The commission improperly paid approximately \$5,000 for a lender's bankruptcy claim submitted 296 days after the 30-day deadline. We considered the date the claims were received as the received date the commission stamped on the claim. Our assumption is consistent with the provisions of the commission's instruction manual. In addition, the commission did not file a proof of claim with the bankruptcy court on behalf of the lender until 67 days after the required 30-day deadline. Once a lender determines that a borrower has filed a bankruptcy petition, the lender, or the commission on the lender's behalf, must file a proof of claim against the borrower with the bankruptcy court within 30 days after the lender receives notice of the first meeting with creditors. We observed a similar weakness in our audit for fiscal year 1990-91.
- For another loan, the commission paid approximately \$5,500 to a lender who submitted a disability claim 16 days after the required 60-day deadline. Further, the lender's claim package did not include the borrower's approved loan application or, in the application's place, an affidavit or indemnification. On this basis alone, the commission should have rejected the claim.
- Finally, in our review of 10 lenders' death claims, we could not determine whether one claim should have been purchased because the commission could not provide us the lender's documents that it should have used to pay the claim. The loan principal was \$4,000. Failure to ensure that the loans the commission purchases from lenders meet federal requirements could jeopardize federal reimbursement.

Criteria:

The Code of Federal Regulations, Title 34, Section 682.402(e)(2)(ii), states that, as a condition for obtaining payment, a lender must file a bankruptcy

claim either within 30 days after the lender determines the borrower has filed a hardship petition or within 30 days after receiving notice of the first meeting of creditors.

The Code of Federal Regulations, Title 34, Section 682.402(d)(3), states that, once a lender determines a borrower has filed a bankruptcy petition, the lender must file a proof of claim with the bankruptcy court within 30 days after the lender receives notice of the first meeting of creditors. Further, Section 682.402(e) requires that the lender provide the guarantee agency specific documents, including the loan application.

The Code of Federal Regulations, Title 34, Section 682.402(e)(2)(i), states that, as a condition for obtaining payment, a lender must file a disability claim within 60 days after the lender determines a borrower is totally and permanently disabled.

Recommendation: The commission should implement procedures and maintain sufficient documentation to ensure that bankruptcy, death, and disability claims meet federal reimbursement requirements.

Item 3.

Guaranteed Student Loans Appeared To Exceed Allowable Loan Limits

Finding: During fiscal year 1991-92, the commission guaranteed student loans that appeared to exceed allowable federal loan limits. We performed a computer search of the commission's borrower files for fiscal year 1991-92 to help identify individual loans guaranteed in excess of allowable federal loan limits. Federal regulations specify the maximum amount loans can be guaranteed based on the student's grade level, the length of the course, and the total outstanding principal of all the student's loans.

For the 61 borrower files we selected for review during our computer search, the commission guaranteed loans that, according to its records,

appeared to exceed allowable limits for 4 borrowers. The 4 loan guarantees appeared to exceed the limits by a total of approximately \$7,900. We noted the following specific problems:

- For 3 of the 4 loans, the commission manually combined two loan accounts into one account. For each of these three loans, information had previously been reported incorrectly under two different account numbers, including the loan amounts. When the commission manually combines accounts, its computer system does not perform a subsequent review of the loan limits. As a result, the system does not automatically cancel the loan amounts entered under the incorrect account numbers.
- For the fourth loan that appeared to exceed guarantee limits, the commission had incorrectly entered information into the system. Initially, the commission had approved an override to the guaranteed amount of the loan limit. However, according to the commission, there was a duplicate application keyed into the system resulting in an apparent excess guarantee of \$2,625.

All four of these loans involved duplicate amounts entered into the system. The commission corrected the system once we brought the exceptions to its attention. We reported a similar weakness in fiscal year 1989-90 and 1990-91.

Criteria:

The United States Code, Title 20, Sections 1078, 1078-1, and 1078-2, provides for specific loan limits for guaranteeing Stafford, Supplemental Loans for Students (SLS), and Parent Loan Program loans. The required limits are based on the student's grade level, the length of the course in which the student is enrolled, and the total outstanding principal for each loan program.

Recommendation:

The commission should ensure that it guarantees only loans that are within the applicable federal limits.

Item 4.

Insufficient Documentation That Defaulted Loans Are Properly Reported to National Credit Bureaus and Insufficient Reporting to National Credit Bureaus

Finding:

There was insufficient documentation that the commission had reported defaulted loans to all three of the national credit bureaus with which the commission contracts to ensure sufficient geographical coverage. In fact, the commission's records indicate that information has been sent to credit bureaus but does not indicate the specific credit bureaus the commission reported to. It is the commission's policy to report defaulted loans to all the credit bureaus it contracts with. However, because the commission did not document this information sufficiently, we reviewed the credit bureaus' records. We found the following specific problems:

- Although we noted at least one credit bureau had a record of the 12 defaulted loans we reviewed, for 5 of the loans we reviewed, either one or two of the credit bureaus did not have any record of the defaulted loans. Without such documentation, we cannot conclude the commission properly reported the loans.
- We also found the commission did not report the date of loan default as required by federal regulations for any of the 12 loans we reviewed.

We reported a similar weakness in fiscal year 1988-89, 1989-90, and 1990-91. If defaulted loans are not properly reported or if information reported is not properly documented, a lender or other guarantee agency could use incorrect information when making or insuring loans.

Criteria:

The Code of Federal Regulations, Title 34, Section 682.410(b)(3), requires the commission to report to

all national credit bureaus the default date, loan collection information, and the date the loan is fully repaid or discharged.

Recommendation: The commission should maintain records sufficient to document that it has properly reported defaulted loans to all appropriate credit bureaus.

Item 5. **Federal Quarterly Report Not Reconciled With Accounting Records**

Finding: The commission's federal quarterly report for April through June 1992 contains information that does not reconcile with the commission's accounting records. Specifically, the commission reported in the quarterly report \$26,956 more in lender claims paid and \$197,237 less in collections received than it recorded in its accounting records. The commission did not provide us with a reconciliation between the quarterly report and the accounting records, and we could not determine whether the quarterly report, the accounting records, or both were inaccurate.

We reported a similar weakness in our audits for each of the last six years. In its March 4, 1991 response to our audit for fiscal year 1989-90, the commission reported that when full implementation of its Financial Aid Processing System occurred, the federal reports would reconcile with its accounting records. However, as of August 1992, the commission had not yet fully implemented its new system.

Criteria: Circular A-102, Subpart C, of the federal Office of Management and Budget, requires the State to account for grant funds in accordance with state laws and procedures. The State Administrative Manual, Section 20014, requires agencies receiving federal funds to reconcile federal financial reports with the official accounting records.

Recommendation: The commission should reconcile its quarterly reports with its accounting records.

Item 6.

Incorrect Amounts Paid to Lenders on Defaulted Loans

Finding:

The commission paid incorrect amounts for defaulted loans purchased from lenders. For 3 of the 40 loans we reviewed, the commission paid lenders incorrect amounts of interest on the defaulted loans it purchased. The incorrect amounts were insignificant for the first 2 loans although, in the third instance, the commission overpaid the lender \$706.22. In this particular instance, the commission appears to have based its interest calculation and payment on an incorrect principal amount.

Because the commission requests reimbursement from the federal government for both the amount of the defaulted loan and the related interest paid to the lender, these errors caused the commission to request incorrect reimbursements. In our audits of the two previous fiscal years, we reported similar instances of the commission paying lenders incorrect amounts of interest on defaulted loans it purchased.

Criteria:

The Code of Federal Regulations, Title 34, Sections 682.404 and 682.405, provides that the federal government will reimburse a guarantee agency up to 100 percent for its losses. Section 682.404(a)(2) defines losses as the amount of unpaid principal and accrued interest the commission pays for a default claim filed by a lender on a reinsured loan. These losses do not include payments made by, or on behalf of, the borrower after the lender's claim is paid and before the federal government reimburses the commission.

Recommendation:

The commission should ensure it pays lenders the correct amount of interest so that it can request the correct reimbursement from the federal government.

Item 7.

Noncompliance With Additional Federal Requirements

Findings and
Criteria:

We noted the following instances when the commission did not always comply with administrative requirements of the federal government:

- The commission did not report at least \$31,143 of the total collections of defaulted student loans within the required 60 days. However, the commission eventually did report these collections. The Code of Federal Regulations, Title 34, Section 682.404(e)(4), requires the commission to submit the federal share of borrower payments within 60 days of receipt. We reported a similar weakness for fiscal year 1990-91.
- We reviewed 24 loan collection calculations for fiscal year 1991-92. For one of these, the commission did not correctly calculate the dollar amount of the equitable share for the secretary of the United States Department of Education. The commission calculated the federal share to be \$39.60 less than the amount the federal government was entitled to. The Higher Education Act, Section 428(c)(6), as amended, requires the commission to pay the secretary an equitable share of any payment made by a defaulted borrower after reinsurance has been paid.
- The commission improperly paid approximately \$28 in accrued interest to a lender who submitted a disability claim 16 days after the required 60-day deadline, yet the commission did not limit the interest it paid to the lender because of the late filing. The United States Department of Education, Bulletin 88-G-138, requires that, if a lender files a late disability claim, the claim will be paid

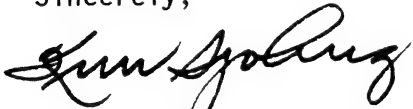
Dr. Samuel M. Kipp III, Executive Director
California Student Aid Commission
Management Letter X-798
Page 11

but the interest that accrues on the loan after
the 60-day deadline is ineligible for
reinsurance.

Recommendation: The commission should improve its compliance with
the federal requirements.

If you have a different perception of any of the items summarized
above, please let me know by October 28, 1992. We may include these
items in the statewide management letter that we will submit to the
Department of Finance in May 1993. Thank you for your cooperation.

Sincerely,



KURT R. SJÖBERG
Auditor General (acting)

CALIFORNIA STUDENT AID COMMISSION

P.O. BOX 510845 (916) 322-1904
SACRAMENTO, CA 94245-0845



November 3, 1992

Kurt R. Sjoberg
Auditor General (Acting)
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Subject: MANAGEMENT LETTER X-798

Dear Mr. Sjoberg:

I received your Management Letter X-798 dated October 21, 1992. I have had my staff research your audit findings and they have reviewed the supporting details you provided.

The staff has provided me with explanations about what may have caused these deficiencies and they have analyzed and provided solutions to correcting the problems. The attached responses explain what may have occurred to create the findings and what we intend to do to correct them. I believe we have sufficiently addressed each finding to minimize its reoccurrence.

I want to thank you and your staff for the ease that this audit was conducted, especially the extra effort put forth to communicate findings to staff at all levels. This was greatly appreciated during the time our staff was heavily involved in conversion activities to our new Financial Aid Processing System (FAPS).

If you or your staff have any questions, Becky Stilling, Deputy Director of Operations (324-9972) or Reg Treece, Chief of Audits-Investigations (445-9302) will be able to assist you.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Samuel M. Kipp, III'.

Samuel M. Kipp, III
Executive Director

SMK:RT:sp

Attachment

cc: Becky Stilling
Jackie Tsang
Reg Treece
Jan Niemeyer

Item 1 **Failure to Ensure that Defaulted Student Loans Met Federal Requirements for Reimbursement**

Response to Finding 1

The Commission has always attempted to ensure all default claims are processed for lender insurance payment within the requirements of 34 CFR 682.406(a). The Commission will continue to reduce the incidence of claims where the 90-day payment timeframe was not met.

In the final example, the Commission believes the claim referenced was received within the 90-day requirement, but since the Commission does not keep postmarked envelopes nor change date stamps to match postmarked envelopes or boxes, we cannot substantiate receipt of the claim within the 270-day requirement. The Commission will continue to monitor the receipt of claims and ensure lenders' claims meet timely filing requirements.

Item 2 **Insufficient Procedures and Documentation to Ensure that Bankruptcy, Death, and Disability Claims Met Federal Reimbursement Requirements**

Response to Finding 2

The Commission consistently attempts to pay death, disability and bankruptcy claims under the requirements of 34 CFR 682.402(e)(2)(ii). In the example of the bankruptcy claim, the Commission believes this claim was rejected back to the lender, yet when resubmitted, a new date receipt stamp was not affixed. This would cause the apparent excessive time in paying the lender's claim. For the disability claim, the Commission will work harder to ensure lenders' claims are limited in interest payments when the 60-day timely filing period is exceeded. Finally, the Commission will attempt to ensure microfilm copies of claim documents are more securely housed, so we can produce claim documents which will prove compliance in paying death claims.

Item 3 **Guaranteed Student Loans Appeared to Exceed Allowable Loan Limits**

Response to Finding 3

In none of the four cases cited did the Commission issue guarantees in excess of the allowable loan limits. Commission staff will avoid the appearance of such violations, in the future, by diligently correcting any erroneous data on its computer system which may be caused by the manual combination of loan accounts or duplicate loan records.

Item 4 **Insufficient Documentation That Defaulted Loans Are Properly Reported to National Credit Bureaus and Insufficient Reporting to National Credit Bureaus**

Response to Finding 4

- a. The Commission will produce one credit reporting tape, and make two duplicates. Each tape will be sent to a specific credit bureau, return receipt requested. The return receipts will be maintained in a log to verify that each monthly tape was received by the credit bureau.
- b. The Commission will report the default date.

Item 5 **Federal Quarterly Report Not Reconciled With Accounting Records**

Response to Finding 5

Every effort is being made to program the new Financial Aid Processing System (FAPS) to balance and reconcile the federal Quarterly Report (1130) with the Commission's accounting records. The Commission has scheduled implementation and full operational capability of FAPS for January 13, 1993.

Item 6 **Incorrect Amounts Paid to Lenders on Defaulted Loans**

Response to Finding 6

The Commission has monitored the claim payment process and consistently paid claim amounts properly under the requirements of 34 CFR 682.404 and 682.405. The one case found involved human error as opposed to a system flaw. The other two instances as you state were for insignificant amounts involving differences of less than 15 cents each. The Commission will continue to monitor the claims process and take steps to correct incorrectly paid claim amounts by performing the necessary claim adjustments with lenders. In the specific case cited, the Commission will request the affected lender return the overpaid portion of the claim payment.

Item 7 **Noncompliance With Additional Federal Requirements**

Response to Finding 7

- a. There are many instances where payments are received without account identification. When this happens, followup must take place. The followup can be time consuming, causing a delay in excess of 60 days, in getting the dollars collected to the Secretary. The Commission believes that it has exercised its best efforts in getting the dollars collected to the Secretary within the required 60-day time period and considers the exceptions to be normal in light of the lack of account identification and the followup required.
- b. The Commission has determined that for the one identified account, that an incorrect reinsurance rate was entered. The Commission's new Financial Aid Processing System will prevent the incorrect entering of a reinsurance rate as it will automatically assign the reinsurance rate based upon the number of dollars reinsured at each rate.
- c. Regarding the overpayment of the disability claim payment, the Commission will strive to make sure any untimely filed death, disability, or bankruptcy claims paid are correctly limited to the 30- or 60-day filing requirement. For the specific case cited, the Commission will request the affected lender return the overpaid portion of the claim payment.



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

October 29, 1992

Management Letter X-266

Carl D. Covitz, Secretary
Business, Transportation and Housing Agency
801 K Street, Suite 1918
Sacramento, California 95814-3520

Dear Mr. Covitz:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the Department of Transportation's (department) administration of the federal Highway Planning and Construction program (Federal Catalog No. 20.205). We noted certain deviations from federal regulations and from the State's system of internal controls. Both the regulations and internal controls are designed to protect the public's resources. The following comments and recommendations are intended to improve the department's administration of the federal program and its internal controls.

On October 22, 1992, my staff met with Denny Shields, Laurine Bohamera, and Koby Kobayashi of the department to discuss weaknesses in the department's administration of the federal program and the department's internal controls. During the meeting, my staff also discussed recommendations to resolve these weaknesses. The following is a summary of the items discussed during the meeting.

Item 1.

**Some Federal Reimbursements Not Promptly Requested
at Highest Rates Allowed**

Finding:

We noted 19 instances when the department did not promptly request reimbursements totaling approximately \$9.9 million for federal aid projects at the highest rate allowed by the federal government. Specifically, we found the following:

- The department did not promptly adjust its reimbursement rate to reflect the highest rate allowed by the federal government for 17 federal aid projects. During our review, we identified one of these projects for which the

reports for fiscal years 1989-90 and 1990-91. In its May 1992 plan to address weaknesses identified in our fiscal year 1990-91 report, the department stated that it intends to establish a system by which it monitors the reimbursement rates it uses to bill the federal government to ensure billings are at the correct rate.

Criteria: A Federal Highway Administration (FHWA) notice, dated January 24, 1991, requires that the reimbursement rates initially agreed upon by the FHWA and the State be retained throughout the life of the project, except that the State may choose to revise rates for active projects by amending agreements between the FHWA and the State. In addition, the State Administrative Manual, Section 0911.4, requires state agencies to secure prompt reimbursement from federal grant funds for goods and services provided.

Recommendation: The department should ensure that it promptly requests reimbursement for federal aid projects at the highest rates allowed by the federal government.

Item 2. **Final Claims Not Filed Promptly**

Finding: The department did not promptly submit some final claims to the FHWA to close completed federal aid projects.

In August 1987, the department and the FHWA agreed the department should submit the final claim for a project within 24 months of project completion. For 3 of the 18 federal aid projects completed after August 1987 that we reviewed, the department did not submit the final claim within 24 months of project completion. These 3 final claims were submitted 32, 33, and 38 months after project completion and totaled approximately \$1,046,000. In addition, we found that the department submitted final claims between 58 and 117 months after project completion for four of six federal aid projects we reviewed that were completed before or during August 1987.

These four projects represent a group of long-outstanding projects for which the department continues to process final claims. Before the department and the FHWA's agreement in 1987, the department had a large backlog of projects awaiting final claims processing. Since that time, the department has reduced its backlog of projects to a level considered acceptable by the FHWA and continues to process final claims for long-outstanding projects. Although the department generally receives reimbursement for eligible project costs before it submits the final claim, the FHWA will not consider a project closed until it reviews and approves a final claim. Moreover, until the project is closed, the department cannot reallocate the balance of authorized funds from the completed projects to other projects.

We reported a similar weakness in our audit report for fiscal year 1990-91. In its May 1992 plan to address weaknesses identified in our report, the department stated that there are certain factors that make it impossible to submit final claims for some projects within 24 months of project completion. Therefore, the department stated in its plan that it is attempting to work with the FHWA to establish a new agreement to allow the department to resolve exceptions that occur that may delay processing a final claim.

Criteria: The Code of Federal Regulations, Title 23, Section 140.107, requires federal aid recipients to submit final claims promptly to the FHWA when the recipients complete projects. In addition, the department and the FHWA agreed the department should submit the final claim for a project within 24 months of project completion.

Recommendation: The department should submit final claims promptly to close completed federal aid projects.

Item 3. **Receipt of Less Than Fair Market Value for Rented
Airspace**

Finding: The department is not receiving the fair market value for the rent of property located beneath a freeway. Such property is referred to as airspace. The department entered into three separate lease agreements in the 1970's with the Department of General Services (DGS) for the DGS to rent airspace beneath a freeway for state employee parking and vehicle storage. One of these leases expired in 1988 and the other two leases expired in 1989. Negotiations for renewing the leases have been on-going since 1987. In August 1992, officials of the department and the DGS met to discuss the negotiations. However, the department and the DGS have not yet agreed on the amount of rent the DGS will pay for the airspace. The department has determined the total fair market value for rental of the airspace to be \$27,305 per month. However, the DGS continues to use the property and continues to pay a total of only \$8,359 per month, the total of the rates in effect at the end of the leases. Because the department is receiving less than the fair market value for the airspace, it cannot use the amount of the full fair market value for federal aid highway projects, as required by federal law. We reported a similar condition in our audit report for fiscal year 1990-91.

Criteria: The United States Code, Title 23, Section 156, requires states to charge, as a minimum, fair market value, for the sale, use, lease, or lease renewals of airspace acquired as a result of a project funded in whole or in part with federal assistance. Further, the section requires states to use the federal share of revenues received from such sales or leases for federal aid highway projects.

Recommendation: The department should take steps to ensure that it receives the fair market value rate for the airspace it leases to the DGS.

Item 4. **Noncompliance With Federal and State Requirements**

Finding: The department did not comply with the administrative requirements of the federal government and the State. The Los Angeles district office was required to complete expenditure reports for 50 federal aid projects during fiscal year 1991-92. However, for 6 of the 50 projects, the district office had not prepared preliminary or final expenditure reports within 120 days of completing the project, as required by the department Accounting Manual. The department cannot submit final claims to the FHWA for project costs until the district offices submit the preliminary or final expenditure reports. Furthermore, until the FHWA reviews and approves a final claim, the department cannot reallocate the unused portion of the authorized funds from the completed projects to other projects. Although individually this instance of noncompliance may not appear to be significant, it does represent noncompliance with the State's system of internal controls or noncompliance with federal regulations, designed to protect the public's resources from abuse.

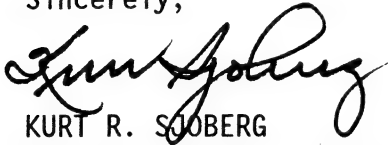
Criteria: The Code of Federal Regulations, Title 23, Section 140.107, requires the department to promptly submit its request for reimbursement for a project after the project is completed. Additionally, the department Accounting Manual, Chapter 8, states that the district offices should submit the final expenditure report to the department's headquarters within 120 days of a project's completion.

Recommendation: The department should improve its compliance with federal and state requirements.

Carl D. Covitz, Secretary
Business, Transportation and Housing Agency
Management Letter X-266
Page 7

If you have a different perception of any of the items summarized above, please let me know by November 5, 1992. We may include these items in the statewide management letter that we will submit to the Department of Finance at a later date. Thank you for your cooperation.

Sincerely,



KURT R. SJOBERG
Auditor General (acting)

cc: James W. van Loben Sels, Director
Department of Transportation

STATE OF CALIFORNIA

801 K Street, Suite 1918
Sacramento, 95814-3520
(916) 323-5401
Fax (916) 323-5402



BUSINESS, TRANSPORTATION AND HOUSING AGENCY

CARL D. COVITZ
Secretary

November 19, 1992

Mr. Kurt Sjoberg
Acting Auditor General
660 "J" Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

In reference to Management Letter X-266, dated October 29, 1992, the Business, Transportation and Housing Agency concurs that there are opportunities to improve controls which assure compliance with the Federal Highway Planning and Construction program. The Department is implementing controls in the areas you suggested.

An action plan, including target dates, is being prepared to monitor implementation of controls. The goal is to have the repeat finding on project closure resolved with the FHWA by the end of 1992. The Department has also requested that the Department of General Services provide confirmation of their airspace needs by December 1992. This will serve as the basis to resolve the fair market value of leased property.

In our opinion, however, the following two items in the report are not clearly presented:

- (1) The issue on adjusting federal rates primarily relates to the transactions between the December 1991 signing of ISTEA and the FHWA determination of reimbursement rates in March 1992. Your report states the Department should have changed its rates in March 1992. However, by the time new rates were received, apportionments which would have been available for the increased rates were already committed to new Construction projects. Therefore, the Department did not lose interest on federal funds as the result of the rate changes.

Alcoholic Beverage Control
Department of State Banking
Department of Commerce
Department of Corporations
California Highway Patrol

Department of Housing &
Community Development
California Housing Finance Agency
Department of Motor Vehicles
Department of Real Estate

Office of Real Estate Appraisers
Department of Savings & Loan
Stephen P Teale Data Center
Office of Traffic Safety
Department of Transportation (Caltrans)

Mr. Kurt R. Sjoberg
November 19, 1992
Page 2

- (2) Both findings Number 2 and 4 of your report state that until FHWA approves a final claim, the Department cannot reallocate the unused portion of the authorized funds for the project. This is not the case. The Department has a procedure to reallocate anticipated unused funding prior to preparation of a final claim.

The Department is working diligently to address the control improvements recommended in Management Letter X-266, but proposes no further action on the two items discussed above.

Sincerely,

A handwritten signature in black ink, appearing to read 'C. D. Covitz', with a stylized flourish at the end.

CARL D. COVITZ



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

November 3, 1992

X-394

James M. Strock, Secretary
Office of Environmental Protection
555 Capitol Mall, Suite 235
Sacramento, California 95814

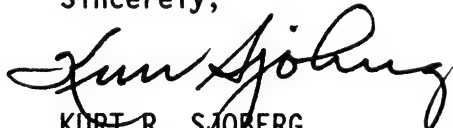
Dear Mr. Strock:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the State Water Resources Control Board's administration of the federal Capitalization Grants - State Revolving Funds program (Federal Catalog No. 66.458).

For this program, we performed the applicable audit procedures included in the federal Office of Management and Budget Compliance Supplement for Single Audits of State and Local Governments. With respect to the items we tested, the results of our audit procedures disclosed no instances of noncompliance.

If you or your staff have any questions, please contact Curt Davis, deputy auditor general, at 445-0255.

Sincerely,


KURT R. SJOBERG
Auditor General (acting)

cc: W. Don Maugham, Chairman
State Water Resources Control Board

Walt Pettit, Executive Director
State Water Resources Control Board

Kelly Bartlett, Chief, Accounting Office
State Water Resources Control Board



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Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Auditor General (acting)

October 14, 1992

Management Letter A-547

Joe G. Sandoval, Secretary
Youth and Adult Correctional Agency
1100 11th Street, Suite 400
Sacramento, California 95814

Dear Mr. Sandoval:

As part of our comprehensive financial and compliance audit of the State of California for fiscal year ended June 30, 1992, we assessed the Department of the Youth Authority's (department) administration of federal programs. We noted one deviation from federal regulations that were designed to protect the public's resources. The following comments and recommendation are intended to improve the administration of federal programs.

On September 18, 1992, my staff met with Mr. Ed Wilder and Ms. Sue Summersett of the department to discuss this weakness in the department's administration of the federal National School Lunch Program (Federal Catalog No. 10.555) and our recommendation to resolve the weakness. The following is a summary of the item discussed during the meeting.

Item

Follow-up On-Site Reviews Not Always Performed

Finding:

During fiscal year 1991-92, the department's Nutrition Services Bureau (bureau) conducted on-site reviews of the food service operations at all of its institutions and camps. Of the 12 site visits conducted, one was not conducted before February 1 as required by federal regulations. Instead, this on-site review was conducted on February 4, 1992, four days after the deadline. In addition, the bureau identified problems with meal counting or claiming procedures at six sites and requested corrective action plans from them. Although the bureau received corrective action plans from all six sites, it did not conduct required follow-up on-site reviews at three sites to determine that the corrective action resolved the problems. Further,

Joe G. Sandoval, Secretary
Youth and Adult Correctional Agency
Management Letter
Page 2

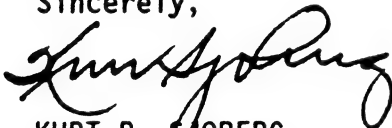
the three follow-up on-site reviews the bureau did conduct were not done within 45 days of the initial review. These follow-up on-site reviews were conducted from 47 days to 50 days after the initial reviews.

Criteria: The Code of Federal Regulations, Title 7, Section 210.8(a), requires each school food authority to perform, before February 1 of each school year, no less than one on-site review of each school under its jurisdiction. Further, if the review discloses problems with a school's meal counting or claiming procedures, the school food authority must ensure that the school develops and implements a corrective action plan, and within 45 calendar days of the review, conduct a follow-up on-site review to determine that the corrective action resolved the problems.

Recommendation: The department should ensure that the bureau conducts all on-site reviews before February 1 of each school year and that the bureau conducts follow-up on-site reviews of all schools requiring them within 45 calendar days of the initial review.

If you have a different perception of the item summarized above, please let me know by October 21, 1992. We may include this item in the statewide management letter that we will submit to the Department of Finance. Thank you for your cooperation.

Sincerely,



KURT R. SJOBERG
Auditor General (acting)

cc: William Kolender, Director
Department of the Youth Authority

Ken O'Brien, Assistant Director
Department of the Youth Authority

DEPARTMENT OF THE YOUTH AUTHORITY

4241 Williamsburgh Drive, Sacramento, California 95823 916/427-4764



October 20, 1992

Kurt R. Sjoberg
Acting Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Sjoberg:

Pertaining to Management Letter X-547, the Department has the following response.

- Follow-up On-Site Reviews Not Always Performed

We agree that during fiscal year 1991-92, the Department's Nutrition Services staff did not follow-up with on-site visits to three facilities. It was the opinion of the staff that problems identified at these three facilities could be adequately remedied with written corrective action plans and telephone communication. In the future, all identified problems will be addressed with written corrective action plans and follow-up visits within 45 calendar days of the initial review.

We acknowledge that one initial site visit was performed four days late. In the future, all site reviews will be performed yearly by February 1st.

The Department wishes to thank you and your staff for the professionalism demonstrated in conducting this audit.

Sincerely,

A handwritten signature in cursive script, appearing to read "Wm. B. Kolender", is written above the printed name.

Wm. B. Kolender, Director

cc: J. Sandoval

**Schedule of Minor Federal Issues for the
Fiscal Year Ended June 30, 1992**

<u>Agency Receiving Federal Funds</u>	<u>Federal Grant and Federal Catalog Number</u>	<u>Description of Issue</u>
All	All	<p>(1) The Department of Finance did not always comply with administrative requirements of the federal government. Specifically, we noted that the department made minor errors resulting in an overstatement totaling about \$300 in calculating the costs of its central service function. Additionally, the department made an error of 80 hours in accumulating its work load for fiscal year 1991-92 for its budget operations support unit, understating time the unit devoted to the Department of Health Services.</p>
California Post Secondary Education	Eisenhower Mathematics and Science Education—State Grants 84.164	<p>(1) The commission does not have an on-going policy for ensuring that its employees are aware of the requirements of the Drug-Free Workplace Act.</p> <p>(2) In our review of applications for Eisenhower grants, we noted that for two applicants the budgets were not revised to agree with the amount received under the grant.</p>
Economic Opportunity, Department of	Low Income Home Energy Assistance Program 93.020	<p>(1) The department did not fully comply with certain federal reporting requirements.</p> <p>(2) The department did not ensure that all warrants were properly endorsed.</p>
Health Services, Department of	Refugee and Entrant Assistance-State Administered Programs 93.026	<p>(1) The department made a clerical error when preparing the federal financial status report for the quarter ended September 30, 1991, and, as a result, overstated by \$7,583 the total reported expenditures of approximately \$5.8 million.</p>

<u>Agency Receiving Federal Funds</u>	<u>Federal Grant and Federal Catalog Number</u>	<u>Description of Issue</u>
Housing and Community Development, Department of	Community Development Block Grant, Section 8 Rental Certificate Program 14.228 14.857	(1) In a 1989 memo, the department distributed its drug-free workplace policy. However, not all department employees that we interviewed could confirm receipt of the policy.
	Community Development Block Grant 14.228	(2) One of the five subrecipients that we reviewed maintained unjustified cash balances that exceeded \$5,000 at the end of two reporting periods.
		(3) The department took longer than seven days to disburse drawn down funds for 2 of the 61 claim schedules that we reviewed. In these 2 instances, the department took 29 and 55 days respectively to disburse the funds.
		(4) The department did not review Equal Employment Opportunity as part of its on-site monitoring for one of the six grantees we reviewed.
		(5) The department did not send a monitoring letter within the required 45 days to one of the six grantees we reviewed that had on-site monitoring visits from the department.
	Section 8 Rental Certificate Program 14.857	(6) The department submitted seven of ten financial reports that were from three to ten days late.
Office of Emergency Services	Disaster Assistance 83.516	(1) The office did not provide a copy of the policy statement as required by the Drug-Free Workplace Act to two of the ten employees that we surveyed. However, as of June 1992, the office distributed its Drug-Free Workplace policy to each employee, requesting that it be read, signed, returned, and maintained in the employee's personnel folder.
		(2) For fiscal year 1991-92, the office submitted three federal cash transaction reports to the Federal Emergency Management Agency from 7 to 29 days late.

<u>Agency Receiving Federal Funds</u>	<u>Federal Grant and Federal Catalog Number</u>	<u>Description of Issue</u>
Rehabilitation, Department of	Rehabilitation Services Basic Support 84.126	<p>(3) The office submitted the final financial status report for a disaster grant declared in 1978 and completed in fiscal year 1991-92 more than five months late.</p> <p>(1) Of the 25 open client files we reviewed, one file did not indicate whether the client was eligible for or received similar benefits under another program. Specifically, the client was receiving benefit services from the department while attending a college/training program.</p> <p>(2) In addition, another client file was not reviewed within 90 days while the client was in Extended Evaluation. Specifically, at the time of our review, the file had not been reviewed within 120 days.</p>
Social Services, Department of	Disaster Assistance 83.516	<p>(1) The department did not deduct an amount a recipient received from other sources from the amount awarded to the recipient from an individual family grant. As a result, the department overpaid the recipient by \$100.</p>
	Family Support Payments to States— Assistance Payments 93.020	<p>(2) In the financial report for the quarter ending March 31, 1992, the department overstated the total federal share of the adjusted expenditures by \$1,122. The department corrected this error by submitting a revised report dated August 31, 1992.</p>
	Job Opportunity and Basic Skills Training 93.021	<p>(3) For the quarters ending September 30, and December 31, 1991, and March 31, 1992, the department overcharged the federal government by \$450, \$454, and \$251, respectively, and undercharged the State by the same amounts. These differences resulted from improperly rounding expenditures funded at a 50 or 60 percent rate.</p>

<u>Agency Receiving Federal Funds</u>	<u>Federal Grant and Federal Catalog Number</u>	<u>Description of Issue</u>
	Child Support Enforcement 93.023	(4) The department understated the federal share of program costs for the quarter ended March 31, 1992, by approximately \$25,200. The department subsequently corrected this understatement.
	Refugee and Entrant Assistance— State Administered 93.026	(5) For 2 of the 21 cases that we reviewed, the department did not receive required progress or change of status reports from counties for unaccompanied minors served in the program.
Transportation, Department of	Highway Planning and Construction Program 20.205	(1) For one of the five construction material purchases that we reviewed, the department's Los Angeles district office paid \$11.04 for more accumulated materials than was allowed in the contract specifications.
Youth Authority, Department of the	School Breakfast Program and National School Lunch Program 10.553 10.555	(1) The department made 23 clerical errors that resulted in charging the federal government incorrectly for 97 meals of the 89,423 meals we tested. However, the department also made 12 clerical errors that resulted in not charging the federal government for 23 meals for which it was entitled to reimbursement. As a result of these inaccurate meal counts, the department overcharged the federal government by \$108.84.
	National School Lunch Program 10.555	(2) All three of the institutions we visited served their wards fluid unflavored lowfat milk. However, only one institution offered wards fluid whole milk as an alternative to fluid unflavored lowfat milk as required by federal regulations.

**Schedule of Federal Assistance for the
Fiscal Year Ended June 30, 1992**

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Department of Agriculture:		
Agricultural Conservation Program	10.063	\$ 25,000
Forestry Incentives Program	10.064	13,000
Farm Labor Housing Loans and Grants	10.405	2,781,120
Food Distribution	10.550	85,149,237 A *
Food Stamps	10.551	1,725,087,740 A *
School Breakfast Program	10.553	107,917,636 A
National School Lunch Program	10.555	488,788,657 A
Special Milk Program for Children	10.556	957,823
Special Supplemental Food Program for Women, Infants, and Children	10.557	264,590,591 A
Child and Adult Care Food Program	10.558	127,166,623 A *
Summer Food Service Program for Children	10.559	100,014 **

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
State Administrative Expenses for Child Nutrition	10.560	8,195,958
State Administrative Matching Grants for Food Stamp Program	10.561	195,489,418 A
Nutrition Education and Training Program	10.564	714,886
Temporary Emergency Food Assistance (Administrative Costs)	10.568	4,133,392
Forestry Research	10.652	784
Cooperative Forestry Assistance	10.664	114,004
Resource Conservation and Development	10.901	39,365
Other—U.S. Department of Agriculture	10.999	1,033,824
Department of Commerce:		
Economic Development—Support for Planning Organizations	11.302	57,000
Special Economic Development and Adjustment Assistance Program— Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration	11.307	142,437
Anadromous Fish Conservation Act Program	11.405	361,034

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Interjurisdictional Fisheries Act of 1986	11.407	245,997
Coastal Zone Management Administration Awards	11.419	2,471,166
Coastal Zone Management Estuarine Research Reserves	11.420	137,765
Other—U.S. Department of Commerce	11.999	252,087
Department of Defense:		
Flood Control Projects	12.106	5,293
Navigation Projects	12.107	124,872
Planning Assistance to States	12.110	707,704
Payments to States in Lieu of Real Estate Taxes	12.112	2,535,741
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	2,154,931
Other—U.S. Department of Defense	12.999	1,226,737
Department of Housing and Urban Development:		
Community Development Block Grants/Small Cities Program	14.219	97,298

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Community Development Block Grants/State's Program	14.228	22,558,701 A
Rental Housing Rehabilitation	14.230	262,109
Emergency Shelter Grants Program	14.231	2,005,115
Supportive Housing Demonstration Program	14.235	1,537,708
Equal Opportunity in Housing	14.400	266,150
Section 8 Rental Voucher Program	14.855*** (14.177)	1,417,498
Lower Income Housing Assistance Program—Section 8 Moderate Rehabilitation	14.856*** (14.156)	335,374
Section 8 Rental Certificate Program	14.857*** (14.180)	21,052,297 A
Department of Interior:		
Small Reclamation Projects	15.503	587,842
Fishery Research—Information	15.604	1,247,594
Sport Fish Restoration	15.605	10,714,379
Wildlife Restoration	15.611	5,239,410
Endangered Species Conservation	15.612	304,196
Geological Survey—Research and Data Acquisition	15.808	75,540

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Historic Preservation Fund Grants-In-Aid	15.904	878,914
Outdoor Recreation—Acquisition, Development and Planning	15.916	2,686,041
Shared Revenues—Potash/Sodium Lease	15.999	23,264,638 A
Other—U.S. Department of the Interior	15.999	3,567,684
Department of Justice:		
Juvenile Justice and Delinquency Prevention—Allocation to States	16.540	5,862,681
Criminal Justice Statistics Development	16.550	27,921
Mariel—Cubans	16.572	610,416
Criminal Justice Discretionary Grant Program	16.574	3,574,850
Crime Victim Assistance	16.575	5,479,316
Crime Victim Compensation	16.576	35,325,000 A
Drug Control and System Improvement—Formula Grant	16.579	37,601,872 A
Corrections—Technical Assistance/ Clearinghouse	16.603	61,503
Other—Department of Justice	16.999	1,834,503

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Department of Labor:		
Labor Force Statistics	17.002	4,995,729
Employment Service	17.207	88,069,157 A
Unemployment Insurance	17.225	370,371,467 A
Senior Community Service Employment Program	17.235	6,375,572
Employment and Training Assistance—Dislocated Workers	17.246	44,295,613 A
Job Training Partnership Act	17.250	267,059,070 A
Occupational Safety and Health	17.500	20,034,303 A
Mine Health and Safety Grants	17.600	456,385
Disabled Veterans Outreach Program (DVOP)	17.801	9,321,766
Veterans Employment Program	17.802	731,380
Local Veterans Employment Representative Program	17.804	6,496,644
Other—U.S. Department of Labor	17.999	20,280
Department of Transportation:		
Boating Safety Financial Assistance	20.005	1,709,166

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Airport Improvement Program	20.106	223,716
Highway Planning and Construction	20.205	1,608,594,193 A
Motor Carrier Safety	20.217	2,214,591
Federal Transit Capital Improvement Grants	20.500	10,818,277
Federal Transit Technical Studies Grants	20.505	200,687
Federal Transit Capital and Operating Assistance Formula Grants	20.507	489,291
Public Transportation for Nonurbanized Areas	20.509	1,168,880
State and Community Highway Safety	20.600	13,387,701
Pipeline Safety	20.700	339,771
State Marine Schools	20.806	100,000
Other—U.S. Department of Transportation	20.999	75,679
Department of Treasury:		
Other—U.S. Department of Treasury	21.999	20,381

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Equal Employment Opportunity Commission:		
Employment Discrimination—State and Local Fair Employment Practices Agency Contracts	30.002	2,669,110
National Aeronautics and Space Administration:		
Aerospace Education Services Program	43.001	117,742
National Foundation on the Arts and the Humanities:		
Promotion of the Arts—Design Arts	45.001	32,783
Promotion of the Arts—Arts in Education	45.003	168,000
Promotion of the Arts—Media Arts: Film/Radio/Television	45.006	37,871
Promotion of the Arts—State and Regional Program	45.007	942,750
Promotion of the Arts—Locals Program	45.023	110,000
Promotion of the Arts—Summer Seminars for College Teachers	45.116	6,978
Promotion of the Humanities— Division of Preservation and Access	45.149	24,500

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Promotion of the Humanities— NEH/Reader's Digest Teacher-Scholar Program	45.154	19,250
National Science Foundation:		
Engineering Grants	47.041	84,730
Mathematical and Physical Sciences	47.049	426,111
Geosciences	47.050	197,343
Biological, Behavioral, and Social Sciences	47.051	39,335
Materials Development, Research, and Informal Science Education	47.067	134,303
Science and Technology Centers	47.073	61,769
Social, Behavioral, and Economic Sciences	47.075	65,951
Education and Human Resources	47.076	714,239
Small Business Administration:		
Business Development Assistance to Small Business	59.005	10,400
Small Business Development Center	59.037	1,570,933

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Department of Veterans Affairs:		
Veterans State Domiciliary Care	64.014	2,294,099
Veterans State Nursing Home Care	64.015	4,525,267
Veterans State Hospital Care	64.016	301,252
All-Volunteer Force Education Assistance	64.124	37,127
Other—U.S. Department of Veterans Affairs	64.999	1,276,391
Environmental Protection Agency:		
Air Pollution Control Program Support	66.001	4,309,138
Air Pollution Control—National Ambient Air and Source Emission Data	66.007	31,135
State Indoor Radon Grants	66.032	244,998
Construction Grants for Wastewater Treatment Works	66.418	937,745
Water Pollution Control State and Interstate Program Support	66.419	3,786,566
State Underground Water Source Protection	66.433	86,053

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Water Pollution Control—Lake Restoration Cooperative Agreements	66.435	33,261
Construction Management Assistance	66.438	2,967,050
Water Quality Management Planning	66.454	1,762,157
National Estuary Program	66.456	849,946
Capitalization Grants for State Revolving Funds	66.458	120,031,161 A
Nonpoint Source Reservation	66.459	817,079
Nonpoint Source Implementation	66.460	2,397,468
Wetlands Protection—State Development Grants	66.461	5,677
Air Pollution Control Research	66.501	20,178
Safe Drinking Water Research and Demonstration	66.506	2,359,443
Toxic Substances Compliance Monitoring Program	66.701	141,808
Hazardous Waste Management State Program Support	66.801	5,795,785
Hazardous Substance Response Trust Fund	66.802	5,878,362
State Underground Storage Tanks Program	66.804	284,995

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Underground Storage Tank Trust Fund Program	66.805	3,673,484
Pollution Prevention Grants Program	66.900	171,628
Other—U.S. Environmental Protection Agency	66.999	2,075,093
Action:		
Foster Grandparent Program	72.001	1,338,724
Volunteers in Service to America	72.003	35,000
Senior Companion Program	72.008	7,459
Department of Energy:		
Energy-Related Programs	81.036	18,365
State Energy Conservation	81.041	487,786
Weatherization Assistance for Low-Income Persons	81.042	4,648,848
Energy Extension Service	81.050	324,034
Energy Conservation for Institutional Buildings	81.052	268,272
Regional Biomass Programs	81.079	3,538
Science and Engineering Research Semester	81.097	70,913

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Federal Emergency Management Agency:		
Flood Insurance	83.100	113,211
Civil Defense—State and Local Emergency Management Assistance	83.503	4,925,039
Other State and Local Direction, Control and Warning	83.504	14,274
State Disaster Preparedness Grants	83.505	48,723
Facility Survey, Engineering and Development	83.509	51,760
State and Local Warning and Communication Systems	83.513	31,193
Population Protection Planning	83.514	551,304
Disaster Assistance	83.516	185,513,433 A
Hazard Mitigation Assistance	83.519	10,430
Earthquake Hazards Reduction Grants	83.521	1,258,760
Radiological Defense	83.522	532,897
Emergency Management Institute— Field Training Program	83.528*** (83.403)	317,400
Other—Federal Emergency Management Agency	83.999	25,000

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Department of Education:		
Adult Education— State Administered Basic Grant Program	84.002	14,115,118
Bilingual Education	84.003	1,387,275
Desegregation Assistance, Civil Rights Training, and Advisory Services	84.004	484,225
Supplemental Educational Opportunity Grants	84.007	4,427,251
Education of Handicapped Children in State Operated or Supported Schools	84.009	2,066,157
Chapter 1 Programs—Local Educational Agencies	84.010	511,387,662 A
Migrant Education—Basic State Formula Grant Program	84.011	98,217,954 A
Educationally Deprived Children— State Administration	84.012	5,153,243
Chapter 1 Program for Neglected and Delinquent Children	84.013	3,257,473
Disabled—Innovation and Development	84.023	115,627
Services for Children With Deaf-Blindness	84.025	697,354

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>	
Special Education—State Grants	84.027	173,179,993	A
Special Education—Special Education Personnel Development and Parent Training	84.029	471,513	
Guaranteed Student Loans	84.032	353,190,481	A
College Work-Study Program	84.033	3,677,512	
Public Library Services	84.034	7,460,751	
Interlibrary Cooperation and Resource Sharing	84.035	2,040,084	
National Defense/National Direct/ Perkins Loans Cancellations	84.037	525,272	
Perkins Loan Program—Federal Capital Contributions	84.038	786,668	
Student Support Services	84.042	94,232	
Vocational Education—Basic Grants to States	84.048	83,205,230	A
Vocational Education—Consumer and Homemaking Education	84.049	2,516,103	
Vocational Education— State Councils	84.053	518,956	
Pell Grant Program	84.063	45,062,875	B
Higher Education—Veterans Education Outreach Program	84.064	5,007	

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Grants to States for State Student Incentives	84.069	9,087,000
Special Education—Severely Disabled Program	84.086	243,672
Indian Education—Fellowships for Indian Students	84.087	804
Fund for the Improvement of Postsecondary Education	84.116	39,706
Rehabilitation Services— Basic Support	84.126	136,733,112 A
Rehabilitation Services—Service Projects	84.128	1,215,186
Rehabilitation Training	84.129	383,611
Centers for Independent Living	84.132	774,459
National Institute on Disability and Rehabilitation Research	84.133	72,277
Migrant Education—Coordination Program	84.144	110,624
Transition Program for Refugee Children	84.146	1,665
Federal, State, and Local Partnerships for Educational Improvement	84.151	48,209,434 A
Public Library Construction and Technology Enhancement	84.154	2,014,386

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Secondary Education and Transitional Services for Youth With Disabilities	84.158	569
Disabled—Special Studies and Evaluation	84.159	16,501
Emergency Immigrant Education	84.162	13,680,681
Eisenhower Mathematics and Science Education—State Grants	84.164	21,471,148 A
Library Literacy	84.167	32,408
Dwight D. Eisenhower National Program for Mathematics and Science Education	84.168	29,940
Comprehensive Services for Independent Living	84.169	1,093,149
Jacob K. Javits Fellowships	84.170	16,000
Special Education—Preschool Grants	84.173	36,506,984 A
Vocational Education—Community Based Organizations	84.174	602,355
Douglas Teacher Scholarships	84.176	1,794,687
Infants and Toddlers With Disabilities	84.181	8,138,001
Robert C. Byrd Honors Scholarships	84.185	994,525
Drug-Free Schools and Communities—State Grants	84.186	50,111,749 A

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Supported Employment Services for Individuals with Severe Handicaps	84.187	3,276,223
Adult Education for the Homeless	84.192	506,481
Education for Homeless Children and Youth—Grants for State and Local Activities	84.196	535,146
College Library Technology	84.197	44,253
Jacob K. Javits Gifted and Talented Students Education Grant Program	84.206	165,516
Even Start—Migrant Education	84.214	14,225
The Secretary's Fund for Innovation in Education	84.215	2,400
Capital Expenses	84.216	2,306,809
State Program Improvement Grants	84.218	1,186,706
English Literacy Program	84.223	1,165,749
Mid-Career Teacher Training	84.232	40,327
National Science Scholars	84.242	618
Tech-Prep Education	84.243	414
Grant Back Awards	84.995	353,022
Other—Department of Education	84.999	98,890

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Consumer Product Safety Commission:		
Other—Consumer Product Safety Commission	87.999	6,250
Department of Health and Human Services:		
State Comprehensive Mental Health Service Planning Development Grants	13.158	74,359
Family Support Payments to States—Assistance Payments	93.020	3,122,473,685 A
Job Opportunities and Basic Skills Training	93.021	103,261,625 A
Assistance Payments—Research	93.022	113,231
Child Support Enforcement	93.023	151,656,836 A
State Legalization Impact Assistance Grants	93.025	306,592,064 A
Refugee and Entrant Assistance— State Administered Programs	93.026	95,191,122 A
Low-Income Home Energy Assistance	93.028	56,937,003 A
Community Services Block Grant	93.031	28,185,278 A
Community Services Block Grant Discretionary Awards—Community Food and Nutrition	93.033	139,653

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Emergency Community Services for the Homeless	93.034	2,817,086
Payments to States for Child Care Assistance	93.037	1,469,249
Food and Drug Administration— Research	93.103	170,078
Maternal and Child Health Federal Consolidation Programs	93.110	10,000
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	563,000
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	11,190,417
Mental Health Planning and Demonstration Projects	93.125	620,236
Emergency Medical Services for Children	93.127	3,993
Injury Prevention and Control Research Projects	93.136	397,200
Demonstration Grants for the Prevention of Alcohol and Other Drug Abuse Among High-Risk Youth	93.144	31,086
Temporary AIDS Drug Reimbursements	93.146	1,596,500
Mental Health Services for the Homeless Block Grant	93.150	3,728,796

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Health Program for Toxic Substances and Disease Registry	93.161	323,800
Community Youth Activity Demonstration Grants	93.170	349,089
Community Youth Activity Program Block Grants	93.171	78,889
Drug Abuse Treatment Waiting List Reduction Grants	93.175	5,745,541
State Data Collection—Uniform Alcohol and Drug Abuse Data	93.179	415,316
Scholarships for the Undergraduate Education of Professional Nurses	93.182	13,922
Disaster Relief Assistance Grants for Drug Abuse Treatment	93.195	4,262
Cooperative Agreements for Drug Abuse Treatment Improvement Projects in Target Cities	93.196	4,330,586
HIV Home and Community-Based Health Services	93.199	1,727,400
Mental Health Research Grants	93.242	829,659
Mental Health Clinical or Service Related Training Grants	93.244	36,654
Childhood Immunization Grants	93.268	2,127,935

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Centers for Disease Control— Investigations and Technical Assistance	93.283	956,765
Biomedical Research Support	93.337	300,541
Professional Nurse Traineeships	93.358	176,153
Nursing Student Loans	93.364	25,450
Cancer Detection and Diagnosis Research	93.394	105,100
Cancer Control	93.399	142,598
Special Programs for the Aging— Title III, Part G—Prevention of Abuse, Neglect, and Exploitation of Older Individuals	93.552	295,023
Special Programs for the Aging— Title III, Part A—Long-Term Care Ombudsman Services for Older Individuals	93.553	308,563
Emergency Protection Grants— Substance Abuse	93.554	6,168
Developmental Disabilities Basic Support and Advocacy Grants	93.630	4,861,231
Special Programs for the Aging— Title III, Part B—Grants for Supportive Services and Senior Centers	93.633	28,947,406 A

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Special Programs for the Aging— Title III, Part C—Nutrition Services	93.635	40,376,721 A
Special Programs for the Aging— Title III, Part D—In-Home Services for Frail Older Individuals	93.641	628,220
Child Welfare Services—State Grants	93.645	14,820,848
Temporary Child Care and Crisis Nurseries	93.656	543,533
Foster Care—Title IV-E	93.658	367,698,273 A
Adoption Assistance	93.659	25,575,926 A
Social Services Block Grant	93.667	330,867,467 A
Special Programs for the Aging— Title IV—Training, Research and Discretionary Projects and Programs	93.668	74,506
Child Abuse and Neglect Discretionary Activities	93.670	13,593
Family Violence Prevention and Services	93.671	911,698
Child Abuse Challenge Grants	93.672	642,214
Grants to States for Planning and Development of Dependent Care Programs	93.673	1,420,242

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Independent Living	93.674	10,402,443
Medicare—Hospital Insurance	93.773	1,802,114
Medicare—Supplementary Medical Insurance	93.774	9,975,171
State Medicaid Fraud Control Units	93.775	6,763,741
State Survey and Certification of Health Care Providers and Suppliers	93.777	20,573,880 A
Medical Assistance Program	93.778	5,947,501,512 A
Social Security—Disability Insurance	93.802	118,790,295 A
Digestive Diseases and Nutrition Research	93.848	12,914
Microbiology and Infectious Diseases Research	93.856	45,954
Cellular and Molecular Basis of Disease Research	93.863	252,018
Model Comprehensive Drug Abuse Treatment Programs for Critical Populations	93.902	6,766,484
Model Criminal Justice Drug Abuse Treatment—Incarcerated Populations— Nonincarcerated Populations— Juvenile Justice Populations	93.903	345,120

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
HIV Care Formula Grants	93.917	4,522,600
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Control Programs	93.919	290,800
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	29,372
Preventive Health Services— Sexually Transmitted Diseases Control Grants	93.977	2,311,600
Mental Health Disaster Assistance and Emergency Mental Health	93.982	477,929
Health Programs for Refugees	93.987	1,012,000
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	169,150
Preventive Health and Health Services Block Grant	93.991	6,665,074
Alcohol and Drug Abuse and Mental Health Services Block Grant	93.992	171,097,252 A
Maternal and Child Health Services Block Grant	93.994	25,921,286 A
Other—Department of Health and Human Services	93.999	9,500,313

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Miscellaneous Grants and Contracts:		
Shared Revenue—Flood Control Lands	98.002	218,183
Shared Revenue—Forest Resources	98.003	56,045,154 A
Shared Revenue—Grazing Land	98.004	159,954
Federal Unemployment Benefits and Allowances	98.010	1,466,156
U.S. Department of Housing and Urban Development—College Housing Debt Service Government Program	98.013	1,250,974
U.S. Department of the Interior—Fire Prevention/Suppression Agreement	98.014	942,579
U.S. Department of Agriculture and Various Other U.S. Departments—Fire Prevention/Suppression Agreements	98.016	8,070,614

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Grant Amounts Received</u>
Miscellaneous Federal Receipts	98.099	403,209
Miscellaneous Federal Receipts	98.999	<u>1,486,907</u>
Total Grants Received		<u><u>\$18,839,191,111</u></u>
Total Major Grants Audited in Compliance With OMB, Circular A-128		<u><u>\$18,392,930,214</u></u>

Note: In addition, the State received \$21,434,524 in Petroleum Violation Escrow Funds that can be used to supplement five federal energy-related conservation and assistance programs. The funds used to supplement these programs were audited to the extent required by the OMB's, Circular A-128.

A - The Office of the Auditor General reviewed these major grants for fiscal year 1991-92 in compliance with the OMB's, Circular A-128.

B - Other independent auditors audited this grant. The grant amount is not included in the amount of total major grants audited on this page.

* - This amount includes cash, food stamps, and the value of commodities.

** - This amount represents the value of commodities only.

*** - The federal government changed the federal catalog number for fiscal year 1991-92. The number in parentheses represents the former federal catalog number.